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KING

Knowledge for INtegration Governance

The Impact of Migration and Integration Policies on Native-Migrant Labour Market Gaps

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Desk Research Paper & In-depth Study n. 16/July – October 2014

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The KING project's objective is to elaborate a report on the **state of play** of migrant integration in Europe through an interdisciplinary approach and to provide decision- and policy-makers with **evidence-based recommendations** on the design of migrant integration-related policies and on the way they should be articulated between different policy-making levels of governance.

Migrant integration is a truly multi-faceted process. The contribution of the insights offered by different disciplines is thus essential in order better to grasp the various aspects of the presence of migrants in European societies. This is why **multidisciplinarity** is at the core of the KING research project, whose Advisory Board comprises experts of seven different disciplines:
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The project consists in the conduct of preliminary desk research followed by an empirical in-depth analysis of specific key topics identified within the desk research. To carry out these two tasks, each Advisory Board member chose and coordinated a team of two to five researchers, who have been assigned a range of topics to cover.
The present paper belongs to the series of contributions produced by the researchers of the "Economics" team directed by Professors Martin Kahanec and Alessandra Venturini :

EU Policy	ADVISORY BOARD MEMBER	RESEARCH PAPERS
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Public Administration		
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The project is coordinated by the **ISMU Foundation**, based in Milan (Italy).

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The impact of migration and integration policies on native-migrant labour market gaps*

DESK RESEARCH

1. INTRODUCTION

Across the European Union, immigrant and native populations exhibit disparate labor market outcomes (Kahanec and Zaiceva, 2009). Significant resources are invested in various policy initiatives aimed at facilitating the integration of immigrants into host labor markets, yet it remains unclear how these policies relate to the immigrant-native labor market gaps observed across Europe. This report reviews existing knowledge about immigrants' and natives' labor market outcomes, focusing in particular on the role of migration and integration policies on bridging labor market gaps. The reports' empirical objective is to measure the relationships between immigrant integration policies across Europe, measured by the MIPEX index, and immigrant-native labor market gaps.

In the first part of the report – desk research – we review immigrant-native labor market gaps in labor force participation, employment and unemployment, and quality of employment. We also study immigrant assimilation as a key determinant of immigrant-native labor market gaps. We then review what we know about the nexus between migration policy and immigrant integration. We introduce the MIPEX index as a harmonized measure of immigrant integration policies in the EU, Norway, Switzerland, Canada and the US.

In the second part of the report – quantitative deepening – we empirically study the relationship between immigrant integration policies and immigrant-native labor market gaps. We proceed in two stages. In the first stage of the analysis, we use the EU LFS as the primary source of data for an exploration of immigrant-native gaps in participation, employment and job quality (occupational attainment and type of contract). Ethnicity is proxied by foreign citizenship and place of birth. The Oaxaca (1973) and Blinder (1973) decomposition is used to obtain the part of the gap that remains unexplained by differences between the immigrant and non-immigrant populations. These unexplained gaps reflect differences in returns to individual characteristics and other unobserved variables such as social and ethnic capital or discrimination. A panel dataset of the estimated unexplained immigrant-native labor market gaps is created, spanning all European countries and a number of years.

The decomposition of immigrant-native gaps informs integration policy about the sources of observed socio-economic disparities. Our interest is to explain how integration policies determine 'unexplained' immigrant-native labor market gaps originating within the labor market due to different treatment or behavior of immigrants and natives that is cannot be explained by gaps in observed characteristics.

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Specifically, in the second stage of quantitative deepening we test the significance of the MIPEX index and its components in explaining unexplained immigrant-native labor market gaps obtained in the first stage. This analysis sheds light on the types of migration policy approaches that are conducive (or not) to the integration of immigrants, as far as their treatment and behavior in the labor market is concerned.

2. THE ECONOMIC EFFECTS OF MIGRATION

Positive effects of migration tend be a function of the migrants' economic potential, especially their human capital, and of how efficiently this potential is utilized.

On the macro-level, most studies find that migration has positive effects on GDP growth and employment growth, as well as on the aggregate wages of the national labor force.

Some negative effects might occur at the micro level in areas with a high concentration of immigrants; these tend to concern low-skilled domestic workers and other immigrants.

In addition to labor market effects, evidence from a number of countries shows that immigration contributes positively to other economic and social variables, such as trade creation, foreign direct investment and innovation.

The effect of migration on receiving countries has been a debated issue in economics for a long time. While various stakeholders present diverse views, labor market experts appear to agree that skilled immigration in particular is desirable because of its economic benefits to the receiving countries.[1]

On the theoretical front, Chiswick, Chiswick, and Karras (1992) and Chiswick (1980, 1998) argue that the effects of migration depend on the degree of substitutability or complementarity of migrant and non-migrant labor. Skilled immigration benefits labor markets which have complementary production factors, such as unskilled workers or workers with complementary skills. On the other hand, it increases competition in the market for skilled labor involving similar skills. A corresponding logic applies to low-skilled immigration.

Bonin et al. (2008) summarize the additional benefits of migration, which stem from its role as a vehicle for cross-regional and cross-border social ties, and thus an impetus for international flows of goods and services, capital, ideas and knowledge. Benhabib (1996) argues that because immigrants channel some capital into their receiving country, immigration increases GDP per capita. Ottaviano and Peri (2006) highlight the benefits of increased ethnic diversity in the receiving labor markets.

Borjas (1995) proposes that as immigration increases labor force in the receiving country, it leads to a lower average wage but higher employment and increased national income. Such positive effects, known as the "immigrant surplus", depend on the economic potential of the migrants, i.e. their human capital and other endowment, and the efficiency with which they use that potential. This relates to which migrants decide to come to a particular country (migrant selection), which skills they acquire in the host country, and the degree to which they fill skill gaps in the receiving labor market. Immigration and integration policies heavily determine immigrant integration, and thus the effects of the immigration on the receiving economy.

[1] See Kahanec and Zimmermann (2011) and Chiswick (2011).

Zimmermann, Lofstrom and Bauer (2000) conclude that immigration policy "indirectly determines who gains and who loses from immigration". Natives who are easily substitutable by immigrants are likely to suffer and natives who act as complements will experience beneficial results from immigration. Similarly for capital owners: immigration will benefit the owners of capital complementary to the type of labor flowing into the country.

Ortega and Peri (2009) analyze the effects of immigration on the growth rate of each component of production function. In particular they show that an increase in immigration leads to (i) an increase in employment growth, (ii) a decrease in hours per worker growth and (iii) an increase in capital growth and GDP.[2]Felbermayr, Hiller and Sala (2008) investigate the effect of immigrants on the per capita GDP in their host countries. They find that immigration has a positive effect on per capita GDP: a 10% increase in migrant stock leads to a 2.2% increase in per capita GDP. Similarly Bellini, Ottaviano, Pinelli and Prarolo (2009) find that the share of foreigners in the total population has a positive effect on per capita GDP in EU destination regions.

Kahanec (2013) and Kahanec and Zimmermann (2010) review the effects of free mobility on EU labor markets following the admission of eastern European countries to the EU. These studies show that economic migrants contributed to economic development in their host countries by bringing skills and knowledge with them, and essentially no evidence was found to justify the claims that such migrants ousted native labor from employment or decreased native wages. Evidence suggests that natives were crowded out in certain occupational sectors, but found jobs elsewhere. A downward pressure on wages in low-skilled sectors and strain on the provision of public services and housing in the areas where immigration was heavily concentrated was suggested in some reports (House of Lords, 2008; Trades Union Congress, 2007). Generally, however, EU8 immigrants filled shortage sectors (e.g. manufacturing and construction) and complemented rather than replaced the domestic and other immigrant labor force (Kureková2011b).

In addition, according to Zimmermann et al. (2012) there is no empirical evidence that new labor is more dependent on the welfare system than native labor, although the impacts differ between local labor markets and skill sectors. Kahanec at al. (2013) show that migration following the eastern expansion of the EU has had a positive effect on GDP, GDP per capita and employment rate in the receiving countries, and a negative effect on output per worker in the EU15.

Contrary to popular beliefs, evidence shows that at the aggregate level, immigration does not decrease the mean wage for native workers in the host country, and perhaps even increases it, although it may in some cases reduce the wages of prior immigrants or low-skilled native workers (Ottaviano and Peri, 2012; D'Amuri et al., 2010, Docquier et al., 2010, Longhi, 2010, Kahanec and Zimmermann, 2010).

Besides its effects on the labor market, immigration facilitates trade creation (Peri and Requena, 2009) and foreign direct investment (Javorcik et al., 2011; Gormsen and Pytlikova, 2012) by reducing the costs of trade through network effects. Venturini, Montobbio and Fassio (2012) find that in the short run highly-skilled migrants, and in particular young tertiary educated migrants, favor innovation (measured as Total Factor Productivity) in the UK, Germany and France. Furthermore, immigrants decrease the price of low-skilled services (e.g. domestic care or gardening), which benefits the native population and enables some natives to return to the labor market (Longhi et al., 2010; Kahanec et al., 2013).

[2]Some negative evidence has also been presented, see Dolado, Goria and Ichino (1994).

3. IMMIGRANT-NATIVE LABOUR MARKET GAPS

3.1. Participation

Participation rates among migrants vary for different migrant groups, based on their mode of entry, country of origin and country of destination.

In general, intra-EU migrants from newly admitted states tend to have very high participation rates, while third country migrants often face greater barriers to labor market integration

Successfully integrating immigrants into the labor market involves overcoming three main hurdles – the participation margin, the unemployment margin, and the employment quality margin (including pay). Participation in the labor market is a precondition for an immigrant's economic integration and directly conditions the economic effects of immigration.

A study by Kahanec, Zaiceva and Zimmermann (2010) on migration and enlargement effects in the EU demonstrates that post-enlargement migrants have greater labor market participation and employment rates than the native population in both their origin and destination countries. This is mainly on account of their positive selection into migration, and their strong determination to seek employment in the host country's labor market. However, Kahanec et al. (2011) show that people born outside the EU and those without EU citizenship have a significantly lower participation rate than the native population in most EU member states. Time spent in the host country appears to facilitate adjustment in this respect. There are some exceptions, however: in Germany, recent immigration from the EU8 countries has resulted in lower employment and participation rates, but higher self-employment rates (Brenke et al., 2009).One possible reason may be the transitional arrangements applied by Germany vis-à-vis EU8 migrants, deterring some well-employable groups of migrants and diverting those who did decide to migrate into self-employment.

Cangiano (2012) finds that labor market access and outcomes are different depending on the immigrant's mode of entry, and that the compositional structure of the immigrant population reflects national migration policies. Specifically, labor migrants demonstrate higher employment rates than native workers, while those immigrating for humanitarian or family reasons are the least likely to be employed. An employment gap exists between different categories of migrants, and this is intersected by gender. Employment gaps between economic and other categories of migrants seem to narrow with time, suggesting that employment opportunities for those who immigrated for family or humanitarian reasons improve over time as a result of language and skill acquisition in the destination country. In general, the immigrants' disadvantage compared to natives is more visible in Sweden, France and Germany than in the UK, Spain and Italy.

3.2. Employment and unemployment

The employment and unemployment rates among immigrants in EU host countries vary considerably.

Generally, however, foreign nationals have higher unemployment rates than the natives.

Immigrant-native labor market gaps generally decline with time since migration, or when controlling for individual characteristics.

Post-accession intra-EU migrants generally have high (waged) employment rates, but often work below their skill level, and typically work in less-skilled occupations than native workers.

Participation provided, migrants meet the employment-unemployment margin. Kahanec et al. (2011) show that foreign nationals and foreign-born workers have a significantly higher unemployment rate than native workers in most EU member states. Once again, the longer the immigrants stay in the host country, the more they are able to overcome barriers to employment.
A study by Arai and Vilhemsson (2004) shows that foreign-born employees in Sweden (especially non-European) were more likely to lose their jobs than native employees, even if they occupied senior positions. Using the same Swedish data, Niknami (2005) shows that non-European immigrant women are less likely to lose their jobs than their male counterparts.

A study by Bisin et al. (2011) on immigrants' ethnic identity and labor market outcomes analyses data from the European Social Survey (ESS) on the cultural and economic integration of non-EU immigrants in Europe. The authors focus on non-EU migrants (those born outside the EU Member States), differentiating between first- and second-generation immigrants (controlling for the migrants' parents' country of birth), and grouping countries of origin geographically. They control for the migrants' level of education, gender, age, a quadratic function of their age, the number of years since their arrival in the destination country and a dummy for their destination country. Ethnic identity is analyzed on the basis of such components as "importance of religion", "language most often spoken at home" and "importance of following traditions and customs". The authors find an employment disadvantage for immigrants with a strong ethnic identity (encompassing attachment to foreign religion, traditions or language spoken at home). First-generation immigrants suffer from a 17% disadvantage vis-à-vis the native population, while the probability of employment is not statistically different for second-generation immigrants. The authors argue the existence of obstacles to migrants' labor market access in all European countries, which make the migrants' labor market position weaker than that of the natives. According to their research, unemployment is more common among migrants than among natives in almost all the countries studied. The share of migrants who are unemployed varies across countries: in the Nordic countries, Austria, Belgium and Switzerland the unemployment rate among immigrants is twice the natives' rate; immigrants in France, Germany and the United Kingdom also experience a high unemployment rate, while in Greece and Portugal the unemployment rate does not vary according to the workers' birthplaces.

A study on immigration in Europe by Dustmann and Frattini (2012) uses the European Labor Force Survey in order to analyze the composition of migrant inflows into European countries and the degree of migrant labor market integration. The authors focus on 15 Western European countries. The study reports disadvantages in terms of employment probability and the occupational distribution of the migrant labor force in the destination countries examined, although the gaps vary across Europe. For example, there are no significant differences in the employment rate of migrants and that of natives in both Spain and Ireland, while in Greece, Italy and Portugal the employment probabilities are higher for migrants than for natives (an unconditional difference). Controlling for worker's age, education, gender and region of residence, the

authors find that migrants have a lower probability of employment in all countries; the employment differentials become negative for Ireland, Italy and Portugal, and the positive differential in Greece is eliminated when controlling for similar observable characteristics, such as geographical area or demographic features.

The authors also show that in all countries apart from Greece, Spain and Italy, non-EU immigrants fare worse than immigrants from other EU countries; the immigrant-native employment rate difference is twice as large for non-EU immigrants. Meanwhile, controlling for age and educational differences fully eliminates the difference in employment probability between natives and EU immigrants in Finland, France, Greece, and Norway, while EU immigrants even have a higher probability of employment than native workers in the UK. The authors also found that the employment gap is 7.9 percentage points in favor of natives in Sweden compared to 2.7 percentage points in Italy, and that non-EU immigrants experience disadvantages in all countries. Controlling for the same set of characteristics, the employment probability is 20 percentage points lower for non-EU migrants than for natives in Belgium, 16 percentage points lower in Germany, 16 percentage points lower in the Netherlands and 17 percentage points lower in Sweden.

Kahanec, Zimmermann, Kureková and Biavaschi (2013) provide a summary of studies that have analyzed the labor market outcomes for migrants from Eastern Partnership countries (EaP) in the EU. Due to the work-related nature of EaP flows, EaP migrants have fairly high average employment rates and high rates of participation. Several additional benefits of this type of migration are identified: evidence from Spain and Italy suggests that the presence of foreign migrants working in the family sector as care givers has improved labor force participation among native women (Marchetti, Piazzalunga and Venturini, 2014; Farré and Rodríguez-Planas, 2014). Furthermore, EaP migration is found to have a very low negative effect on native wages, which suggests these migrants are complementing rather than substituting the native labor force (Kahanec, Zimermann, Kureková and Biavaschi, 2013).

EU8+2 post-accession migrants generally have high (waged) employment rates, but typically work in less-skilled occupations than native workers (Kahanec, Zaiceva and Zimmermann, 2010; Blanchflower and Lawton, 2010). However, variation exists across receiving EU countries. For example, analyzing data from 2006, Gerdes and Wadensjö (2009) find that in Sweden immigrants from the new member states have a lower employment rate than natives. However, there is no evidence that recent labor migrants are over-represented in Swedish state welfare schemes. A low welfare take-up among EU8 and EU2 migrants was also found in other major EU15 receiving states, not least due to strict eligibility conditions for welfare access (Kureková 2011a, Kureková 2013).

3.3. Employment quality and pay

Immigrants typically earn less than natives, both upon arrival and with years since migration.

Wage gaps are different in different receiving countries and dependent on country of origin; they tend to decrease with time spent in the host country, but are never eliminated.

Possible explanations for the income gap identified in the literature include: the imperfect transferability of human capital, differences in educational system, differences in cultural background, and factors such as poor recognition of qualifications, discrimination, or structural conditions drawing immigrants into low-skilled and low-paid sectors.

Provided that the immigrants find work, the third margin that they often struggle with is the quality of the job they have. Immigrants typically earn less than natives, not only upon arrival but also years later (see LaLonde and Topel, 1992; Schoeni et al., 1996) although wage gaps are different across countries and tend to decrease with tenure in the host country, but not completely converge; some groups of immigrants may earn more than natives (see e.g. Bell, 1997 and Grant, 1999).

In a study on immigration policy and immigrant assimilation, Zimmermann, Lofstrom and Bauer (2000) analyze existing literature on immigrant-native wage gaps in OECD countries. For example, Dustmann (1993), Schmidt (1992), Pischke (1992) or Licht and Steiner (1994) find that there is an initial immigrant-native wage gap (9% to 23%) in Germany and that guest workers further have slow earnings assimilation compared to native workers; Bauer and Zimmermann (1997), Dunn et al. (1997) and Schmidt (1997) do not find any initial earnings gap for assimilation among ethnic German immigrants in Germany; Bauer and Zimmermann (1997) find lower labor market performance among ethnic Germans who immigrate from the former USSR compared to the performance of ethnic Germans immigrating from Poland or Romania. Kee (1993) analyzes wages paid to Dutch immigrants from Turkey, Morocco, Suriname and the Antilles in the Netherlands, controlling for schooling acquired at home and abroad, years of residence, and language abilities. The author finds that education acquired at home does not result in higher earnings for Turks and Moroccans; education acquired abroad has positive effects on the earnings of Surinamese and Antilleans; and years since migration have positive effects, which however disappear if language skills are controlled for. Hayfron (1998) finds poor performance among recent immigrants in Norway.

Winter-Ebmer (1994) studies the effect of migration motives, country of origin and years since migration on immigrants' earnings in Austria, and finds that there is a wage gap and that immigrant workers make slower wage progress than native workers. In contrast with the pattern seen in Germany, Turkish immigrants in Austria earn more than workers from former Yugoslavia. Migration for economic reasons leads to significantly higher wages than migration for family or political reasons.

Venturini and Villosio (2000) show that the average immigrant-native wage gap in Italy ranged from 13% to 21% in 1993, depending on the immigrant's country origin, with Asian immigrants suffering the greatest disadvantage, followed by African immigrants. The wage gap was found to be smallest for immigrants from Latin America and Eastern Europe. The authors conclude that only 61% of this wage gap can be explained by differences in observable characteristics, but wage gaps decline with years since migration. Barrett and O'Connell (1999) find that returning migrants have an earning advantage over migrants who have remained in Ireland.

Ramos, Matano and Nieto (2013) summarize possible explanations for the immigrant-native income gap, including the imperfect transferability of human capital, differences in educational systems, or different cultural backgrounds. The authors also propose that labor market policies may play an important role in closing both human capital gaps and more general labor market gaps. Their research analyzes immigrant-native wage gaps in the EU countries, paying attention to returns on human capital and to existing labor market policies, and finds that the wage gap between the immigrant and native labor forces is more than 15% if taking age as a proxy of potential experience; this gap narrows to 8% when controlling for additional characteristics, such as the nature of work contracts, occupational dummies, and sectors of job activity, which leads the authors to conclude that immigrants across the EU are subject to job segregation.

Kureková (2011a) presents a review of studies analyzing the earning outcomes of EU8 post-accession migrants in the UK and Ireland. Due to the predominance of low-skilled employment, the earnings of EU8 migrants in the UK are among the lowest relative to other non-EU immigrant groups, when controlling for demographic characteristics (Clark and Drinkwater 2008; Drinkwater, Eade, and Garapich, 2009; Blanchflower and Lawton, 2010).The occupational variable serves well to explain the different levels of earnings between EU8 migrants and other EU workers in the UK (Drinkwater, Eade, and Garapich, 2009).

English language ability is another important determinant of immigrants' earning outcomes and, together with length of stay, affects upward mobility in the British labor market (Pollard, Latorre, and Sriskandarajah, 2008; Blanchflower and Lawton, 2010; Clark and Drinkwater, 2008; Dustmann and Weiss, 2007).

Recognition of qualifications might add to the institutional factors mediating earning outcomes. Clark and Drinkwater (2008) argue that the mismatch between the acquired skill levels and earnings of EU8 migrants can be understood in the context of their 'strategies'. EU8 migrants in the UK therefore might prefer not to invest into English language skills or other skills that would enhance their long-term chances at the host country economies.

Kerr and Kerr (2011) show those EU immigrants and natives fare similarly according to occupational distribution, but only in France and the UK isthe occupational distribution of non-EU immigrants similar to that of the native population. According to the authors the average occupational distribution among immigrants evens out towards the level of the native population with time since migration, and is most equal in Nordic and central European countries. For example, 1% of EU immigrants and 13%of non-EU immigrants would need to change their jobs in order to balance the occupational distribution in Finland; 5% and 15% respectively in the Netherlands; but 27.5 and 36% in Italy or 32% and 50% in Greece. As the initial gaps are largely due to educational gaps and lack of language skills, it is unsurprising that improvement in migrants' language skills and educational levels leads to job upgrading (Chiswick 1991; Borjas 1994; see also Dustmann, 1994, Dustmann and van Soest, 2002, and Dustmann and Fabbri, 2003).

Several studies focusing on post-accession intra-EU mobility find distinct occupational patterns among post-accession migrants. Kureková (2011b) studies the occupational patterns of post-accession EU8 migrants in EU15 and major receiving countries and also finds distinct patterns of sectoral allocation relative to host countries as well as to other immigrant groups. For example, post-accession EU8 migrants to the UK are over-attracted to the manufacturing industry, where their employment share is nearly three times greater than that of UK nationals, surpassing 30%; the same group of migrants also occupies a greater than 20% share in the hospitality industry and over 10% in the construction sector (Pollard, Latorre, and Sriskandarajah, 2008). EU8 migrants are employed in different sectors than other migrant groups: immigrants from African countries are far more likely to be found in health and social work, while those from South Asian countries are more dispersed across industrial sectors (Jayaweera and Anderson, 2008).

Data from Sweden indicate that the composition of EU8 migrants by industry was similar to the composition of the Swedish population; however, relative to Swedes, EU8 nationals with higher education are overrepresented, while those with primary and lower secondary education are underrepresented (Doyle, Hughes, and Wadensjö, 2006). More recent figures, however, show that new immigrants from EU10 were overrepresented in the agricultural and construction sectors, and underrepresented in public administration and the educational sector, relative to native Swedes (Gerdes and Wadensjö, 2009).[3]

Kureková (2011b) shows that over-attraction of post-accession EU8 migrants tithe manufacturing industry in EU15 corresponds to the manufacturing employment shares in the migrants' home economies. On the other hand, the share of EU8 migrants working in the construction sector and hospitality sector, are higher than both the receiving countries' existing structures and the employment share of these industries in the migrants' home country. This might be explained by the fact that these are traditional migrant labor sectors, since they are dependent on highly flexible, cheap and seasonal labor. Furthermore, skills in the hospitality industry can be acquired quickly in the form of on-the-job training, as a result of which this sector tends to provide demand for student employment. It would therefore be a sector in which many highly educated EU8 migrants might naturally seek and find employment (Anderson et al. 2006). Kureková (2011a) proposes that both patterns of migration and migrants' labor market outcomes can only be fully

[3]These data include Cyprus and Malta.

understood when both demand and supply factors are considered, together with economic, policy and social variables in both the sending and receiving countries.

A study by Ruist (2013) on immigrant-native wage gaps summarizes the literature on the situation in the US (Ottaviano and Peri, 2012), UK (Manacorda, Manning, and Wadsworth, 2012), and Germany (D'Amuri, Ottaviano, and Peri, 2010). He concludes that the immigrant-native wage gap widens wherever immigrants are more numerous within the labor force, and that this gap is "defined by education and work experience". He suggests that this proves immigrant-native complementarities in production as well as the effects of changing immigrant composition. Gaps vary depending on the migrants' region of origin, years of residence in the destination country, education and work experience.

Schröder (2007) suggests that discrimination may be driving some of these gaps. For example, she reviews study on non-European migrants 'earning by Arai and Skogman Thoursie (2007), which shows that migrants who adopted more Swedish-sounding last names received higher wages. Ethnic discrimination in the recruitment process in Sweden was a reported result of "situation testing" (International Labor Organization (ILO), 2006), and Carlsson and Rooth (2006) also arrive at similar conclusions about ethnic discrimination (especially in the low-skilled sectors) based on the results of their experiment measuring call-back rates to job applications of fictitious applicants with Arabic-sounding and Swedish-sounding names.

3.4.Assimilation, ethnic identity and labour market outcomes

Tenure in the host country labor market is one of the key predictors of labor market assimilation.

Some studies point out that migrants with strong ethnic identity are less likely to integrate into the host country's labor market, which might reflect individual preferences.

Other studies point to structural (rather than individual-level) barriers in assimilation, in particular job segregation and the prevalence of employment in sectors and jobs that do not offer opportunities for occupational growth.

A negative correlation between ethnic identity and employment outcomes is seen in some studies, such as Pendakur and Pendakur (2005), Mason (2004), Constant et al. (2006) and Zimmermann et al. (2007).These studies demonstrate that employment probability is lower for marginalized immigrant groups than for assimilated groups. One possible explanation for this reality could lie in the closer cultural affinity of the assimilated groups and a favorable market situation for them more broadly. However, a study for Sweden by Nekby and Rodin (2010) finds insignificant differences between integrated and assimilated migrants, but the immigrant-native gap widens for migrants with a "separated identity" by 8 percentage points compared to the assimilated migrants. An important finding is that the effects of differences in cultural identity primarily apply to male workers. A study for the UK by Battu and Zenou (2010) shows that the "social environment of individuals has an influence on their identity choice" as, for example, individuals who identify themselves as being oppositional, or those who are openly against mixed marriage, have lower probabilities of being employed.

Bisin et al. (2011) study the relationship between natives' and immigrants' employment outcomes, ethnic identity (encompassing attachment to religion, attachment to traditions and primary language spoken at home) and the character of migration and integration policies in Europe. When controlling for variables such as region of origin, country of destination and individual characteristics, the authors find that in

Europe attachment to ethnic identity results, on average, in an employment penalty of 0.7% for both natives and migrants; that penalty is however as high as 17% for first generation migrants, while for second generation migrants it is not statistically significantly different from the penalty for natives. At the same time, second-generation migrants are found to have a higher probability of employment than their parents, but this probability decreases with stronger ethnic self-identification. These findings raise important questions about how the impact of state policies might be mediated by individual preferences and strong ethnic identities.

Venturini and Villosio (2008) analyze patterns of wage and employment assimilation of workers born outside Europe in Italy. They use a standard model of wage assimilation, analyzing acquired human capital and controlling for selection into return migration. They evaluate labor market assimilation through wage assimilation and employment assimilation (number of days worked annually) taking into account social and human capital variables (age, number of months employed or unemployed), job characteristics (skill level, contract type, company size, location and occupational sector), country of origin and arrival year, as well as the unemployment rate. Their findings show that foreign workers work less and earn less than native workers, by 21% and 20%, respectively. The authors conclude that foreign workers start out on the labor market at low employment levels and do not catch up with native workers.

In a study on wage assimilation between the native and immigrant populations, including internal native as well as foreign migrants in Italy, Strom et al. (2013) found that the assimilation of foreign workers is caused by job segregation rather than inadequate language skills or macroeconomic conditions. The authors emphasize that the reason foreign workers do not assimilate on the labor market is that they are employed in sectors with no career options.

4. INTEGRATION – MIGRATION POLICY NEXUS: WHAT WE KNOW

4.1. Introducing the MIPEX index

The MIPEX index provides a harmonized measure of immigrant integration policies in the EU, Norway, Switzerland, Canada and the US.

The MIPEX indicator measures immigrant integration policies in all European Union Member States, as well as in Norway, Switzerland, Canada and the USA. The methodology is harmonized across countries, such that the data are directly comparable. The MIPEX index is available for the years 2004, 2007 and 2010 and is the only immigrant integration index to date with longitudinal dimension. Whereas the 2007 and 2010 editions are directly comparable, the methodology changed after 2004. The MIPEX index is our key independent variable explaining immigrant-native labor market gaps in the quantitative deepening part of this paper below.

MIPEX uses 148 policy indicators to measure the degree to which immigrants are guaranteed equal rights, responsibilities and opportunities in their destination country. It covers a number of policy areas, such as labor market mobility, family reunion, education, political participation, long-term residence, access to citizenship and protection from discrimination. For each of the policy areas, MIPEX pinpoints the highest European or international standard in terms of facilitation of equal rights, responsibilities and opportunities for all residents. Where no country offers an exemplary standard, the benchmark is set according to European-wide institutional recommendations.

MIPEX is based on public laws, policies and research. Each policy indicator is evaluated by independent

scholars and practitioners, based on the country's publicly available documents, on a scale of 1-3, where 3 means that the country's actual policies match the highest standards as set by the benchmark. All scores are then anonymously peer reviewed.

4.2. Role of migration policies in explaining native-immigrant labour market gaps

Many studies argue that immigration policy has an influence on the scale of migration, the composition of immigrant inflows, and immigrant assimilation patterns, although the evidence presented in these areas has been somewhat contradictory.

Other scholars argue that policy restrictions have limited effects on migrant inflows in some contexts, because migration is driven by a complex set of factors, including economic, demographic and political developments, as well as by structural conditions in both the country of origin and the destination country.

Importantly, the scale and composition of migrants in one country can be significantly shaped by migration policies in other countries.

The literature analyzing the link between migration policies, migration levels, the composition of immigrant populations, and migrants' labor market outcomes in their destination country has been growing. An analysis of migration policies across EU member states by Zimmermann, Bauer and Lofstrom(2000) shows that immigration policy in the destination country has an impact on economic growth and performance, the characteristics of immigrant inflows and the perception of immigrants by the native population. If the country implements favorable migration policies aligned with labor market demand, the resulting immigrants will most likely perform well on the labor market, with rather quick assimilation and contribution to economic growth. If the migration policy is focused on humanitarian criteria (permitting entry primarily to refugees, for example), then labor market success is not usually as quickly achieved, since the inflows are constituted of immigrants with fewer transferable skills and the immigrant-native human capital difference is therefore larger. Zimmermann, Bauer and Lofstrom (2000) discuss migration policies in four types of immigration regimes: traditional immigration countries such as the US, Canada or Australia; postcolonial immigration countries such as the United Kingdom, France and the Netherlands; active (temporary) labor recruitment in e.g. Austria, Germany and Sweden; and new immigration countries, such as Ireland, Italy and Spain. They find that immigration policy has an impact on the size and composition of immigrant inflows. Immigrants performed relatively well compared to native workers in the traditional immigration countries, and both traditional immigration countries and new immigration countries received more working immigrants than the other countries.

In a study on the social and labor market integration of ethnic minorities, Zimmermann et al. (2008) confirm previous findings that different countries attract different types of immigrants. For example, the Nordic countries altered their policy to prioritize humanitarian and refugee-type immigration after previously focusing on economic and labor force migration, and this policy change caused ethnic composition changes among immigrant groups. Meanwhile, Canada attracts migrants based on a points system, focusing on skilled and younger workers, and thus attracts very different migrant groups. The authors propose that these policy differences partially explain differences in self-employment, unemployment and labor force participation rates across these countries.

A study by Dustmann and Frattini (2012) investigates whether occupational segregation and the immigrant-native employment gap are larger in recent immigration countries. Their results show that the employment gap and occupational differences are larger in countries which had a larger share of foreign-born workers in

2010 than they had had in 1960, which implies that longer exposure to immigration leads to greater assimilation of non-EU immigrants on the labor market, although it does not have any effect on the employment probability of EU migrants. The authors emphasize that their calculations are merely suggestive; nevertheless, their findings are consistent with the hypothesis that a correlation exists between immigrant disadvantage, institutional assistance and labor market accessibility.

Looking deeper into the roles of integration policies, Ramos, Matano and Nieto (2013) study whether returns to human capital are more comparable for natives and immigrants in countries which implement more favorable integration policies, as measured by the MIPEX migration policy index. The authors show that immigrant-native wage gaps are lower in countries with more favorable policies, due to medium skilled workers (rather than highly skilled) being in a relatively better situation. Their analysis finds that education has a positive effect on wages for both natives and migrants in all countries included in the analysis. Returns to tertiary education are higher in EU12 countries than in EU15 countries, in relative terms, but so is the immigrant-native wage gap. Controlling for immigrant characteristics reveals that the immigrant-native wage gap is lower in those of the EU15 countries that have more favorable policies than in those with more restrictive policies. At the same time, the results show that the most qualified workers from EU12 countries benefit the least from favorable legislation. Wage differentials are similar for EU and non-EU migrants, with the exception of highly skilled workers. The wage gap is not significant for EU migrants to EU15 countries with favorable policies, except for highly skilled workers, who suffer from a 3% wage gap. In EU15 countries with less favorable policies, that wage gap is 12% on average, and widens for low skilled workers, and wage gaps are also higher for non-EU immigrants.

Immigration policies in countries with high income include entry restrictions, which may affect employment type, through work permits and other regulatory norms. Anderson and Ruhs (2008) argue that the employment restrictions in the UK limit migrant mobility across occupational sectors and also keep workers in unattractive jobs with low wages, or in remote geographical regions (the temporary seasonal agricultural worker scheme is an example of such a policy). This in turn might explain immigrants' poorer labor market outcomes in such countries.

In studies measuring migration policies and their effectiveness, de Haas and Czaika (2013) and Czaika and de Haas (2011) argue that policy restrictions have limited effects on migrant inflows, because migration is driven by economic, demographic and political developments in both sending and receiving countries. They review further studies confirming this claim, and suggest that migration policy restrictions have a can umber of unintended and counterproductive effects, which result in illegal migration and discourage migrant return (see Castles, 2004; Cornelius et al., 2004; de Haas, 2011; Massey et al., 1998; Kahanec et al., 2013).

On the other hand, a number of authors argue that immigration policies have increased the countries' migration control capacity (Bonjour, 2011; Brochmann and Hammar, 1999; Geddes, 2003; Broeders and Engbersen, 2007) and that migration policies have significant effects on migration trends (Hatton, 2009; Ortega and Peri, 2013). Immigration restrictions have had a significant effect on the magnitude and composition of migrant flows (Beine, Docquier, and Ozden, 2011; Hatton, 2005; Mayda, 2010; Ortega and Peri 2013). The introduction of entry visa requirements and stricter border controls has made it more difficult for poor people to enter wealthy countries (Carling, 2002).

Several researchers reflect on the effect of migration policies on the skill composition of migrant populations. Mayda (2010) finds that more liberal immigration policies have a positive effect on immigrants' income levels. Green and Green (1995) showed that a points system introduced in Canada in 1967 had a significant effect on the occupational composition of immigrants, but only temporarily, concluding that the effect of skill-selective entry policies fades with time.

The enlargement of the EU, was not a migration policy *per se*; nevertheless, post-enlargement East-West migration within the EU provides an interesting empirical context for the study of migration policies. Post-accession migration flows were geographically more diverse than those prior to enlargement, and the skill composition of migrants was also affected to a large degree by differences in migration policy in the EU15 countries. For EU8 citizens, the relative importance of the UK and Ireland (which fully opened their labor markets) and of Spain as destinations increased substantially, while traditional host countries such as Germany and Austria saw their share of incoming migrant flows quite dramatically reduced in the early years following the 2004 EU enlargement. With the accession of EU2 (Romania and Bulgaria), Spain and Italy's shares in EU migration increased steeply, mainly at the expense of Germany, Austria and France (Holland et al., 2011). This is partly the result of transitional arrangements, because Germany and Austria restricted free access for EU8 workers for seven years (until May 2011). In addition to increased EU-internal migration flows, the EU's expansion led to a generally positive shift towards younger and more educated migrants. Kahanec et al. (2013) found that after enlargement, the share of highly educated EU10 migrants residing in the EU15 countries increased substantially. However, the countries that introduced transitional restrictions on the free movement of labor generally attracted immigration with lower average educational attainment from the EU8 countries (Kahanec and Zimmermann 2010).

Kahanec et al. (2013) also studied the costs and benefits of past and potential future migration flows from the Eastern partnership countries as affected by different policy frameworks (full liberalization, selective liberalization and no liberalization). They find that policy framework has a key role in affecting observable migration flows, above migration costs and economic conditions. Partial liberalization policies are (unsurprisingly) less powerful in this respect than full liberalization. Visa liberalization, meanwhile, does not itself lead to any increase in migration. Overall, fears of uncontrollable inflows of immigrants following the liberalization of labor markets have been seen to be unjustified. The macroeconomic effects of migration are also shown to be consistently more favorable under more liberal policy arrangements, with receiving countries benefiting most under full liberalization. The authors explain these findings on the grounds that migrants are more efficiently matched to labor market demand when there are no restrictions on migrant entry or their sectoral allocation.

Czaika and de Haas (2011) present empirical evidence of migration policy effectiveness, arguing that there are flaws in the definition of policy "effectiveness". They explain the possibility of perceived policy failure, and distinguish three immigration policy gaps: the discursive gap (public discourse differs from policies on paper); the implementation gap (policies on paper differ from implementation in practice) and the efficacy gap (the gap between stated and actual effects of policies on migration). The authors suggest that the recent adoption of more restrictive immigration policies has resulted from disparities between public statements and actual written policies. The scope for such policies to be properly implemented depends upon the resources and performance of civil and state agents. The authors also emphasize the importance of awareness of the context in which migration policies are developed, claiming that literature on migration policies has sometimes been detached from policy implementation results and migration realities.
Rotte and Vogler (2000) capture the effects of policy changes in Germany on African and Asian immigrants from 1981 to 1995, finding that more restrictive policies from 1987-1993 had a negative effect, but that there was a positive effect in 1991, when the work ban for asylum-seekers was abolished. However, their analysis was unable to capture long-term effects and possible inter-temporal substitution effects. Beine et al. (2011) analyze the effect of the Schengen agreement on the skill composition of immigrants, finding a rise in the share of higher skilled migrants after the agreement was adopted. However, they do not identify whether there was a categorical or spatial substitution effect.

Cangiano (2012) analyzed existing literature on differences in labor market performance between migrants and native workers in the EU, suggesting that immigrants' social and demographic backgrounds only partially explain the existing differences, and that the observed gaps may be attributed to other structural factors in the receiving countries, including the structure of the labor market and relevant regulations,

educational and welfare systems and immigration and integration policies.

The author claims that the potential impact of migration policies is twofold. First, they may influence the number and qualities of immigrant workers (selection at arrival, based on human capital or skills, e.g. by a point-based system such as in the UK, or a quota scheme to select lower skilled workers). The structure and skill composition of the immigrant workforce is also influenced by preferential job filling by native workers, or bilateral agreements concluded with specific sending countries, as well as non-economic migrant admission policies (admitting dependents, refugees and students) which also grant permission to work. Second, migration policies impact the labor market situation through labor market access restrictions and regulations (various types of permits for residence and employment).

Cangiano (2012) underlines that highly skilled workers do not, in most cases, face restrictions in terms of gaining full citizenship rights, but that non-EEA migrants do face difficulties in getting access to the labor market and renewing their residence permit. In addition, non-EEA migrants experience obstacles in switching jobs, obtaining permanent residence and reuniting with their families. All of these hinder the professional mobility and career advancement for this category of migrants; in some cases the same may apply to asylum seekers and international students. Moreover, as mentioned, transitional arrangements in some EU15 countries limited labor market access for migrants from the new EU Member States. Thus, Cangiano (2012) concludes that the state is a key actor in the process of recruiting foreign labor force, determining migrant inflow composition, and determining migrants' labor market outcomes both in the short run and in terms of long-term socioeconomic integration (see also Bauder, 2006; Anderson, 2010).

Cangiano (2012) emphasizes that EU Member States are not eager to transfer labor migration policy decisions to the EU level and hence national policies continue to be structured differently, selecting and attracting different types of migrants. For example, admission policies in Germany and France are restrictive, although labor market access is less restrictive for migrants entering for the purposes of family reunification or asylum seeking. Sweden also admits non-EU migrants for family reunification or under humanitarian schemes, but unlike Germany and France, Sweden did not impose any transitional arrangements following the EU enlargement in 2004 and 2007.

Having previously applied restrictive labor migration policies, Italy and Spain now practice a more open migration framework, widely applying regularization procedures for those migrants who are in the country illegally. In late 2000s the UK switched from restrictive migration policies to attracting skilled workers through a point-based system. There is no consensus as to whether selective policies have succeeded in meeting labor market needs and improving immigrant integration. For example, Reitz (2007) found that migrant skills were underutilized in Canada, while Wanner (2011) found that migration policy has no significant effect on migrants' economic integration. Several EU member states implement migration policy frameworks favoring high-skilled migrants (Kahanec and Zimmermann, 2011).

A study by Bisin et al. (2011) on ethnic identity and the labor market outcomes of non-EU immigrants in Europe argues that the Nordic countries (including Denmark), western Mediterranean countries and the UK form the group of countries with the most favorable integration policies, while Ireland, France and Luxembourg achieve the lowest scores for integration favorability (measured by a classification based on the MIPEX index). Through their analysis of the direct impact integration policies have on immigrant employment outcomes, the authors show that only “family reunion policies seem to have a positive and significant impact on employment outcomes”. At the same time they find that the employment penalty is lower for migrants with strong ethnic identity. Family reunion policy has a negative cross effect, possibly explained by the fact that social ties in the host country contribute to finding a job (by providing information on job opportunities) but strong ethnic feelings might hamper these externalities. The same study also finds that political participation policies have a negative influence on immigrants' prospects. The authors explain this by a possible negative native response to immigrant participation in local elections. At

the same time, the study suggests a positive relationship between ethnic identity and employment probability for migrants with strong ethnic feelings. In terms of EU-wide policies, Bisin et al. (2011) point out that although a common integration policy agenda exists, the policy itself is not yet in place.

The evidence reviewed above shows that immigration policy has an influence on the scale of migration, the composition of immigrant inflows, and patterns of assimilation among migrants. It shows too, however, that many additional elements mediate the impact of host country migration frameworks, and that country of origin is another key factor in particular. The empirical results here cited demonstrate that decreases in immigrants' employability might be attributed to political or structural changes in their home country, resulting in flows of migrants with different socio-economic backgrounds. Immigrant adjustment (labor market integration prospects) appears to be more efficient in countries with selective immigration policy based on labor market characteristics.

5. THE IMPACT OF INTEGRATION POLICIES ON NATIVE-MIGRANT LABOR MARKET GAPS

The desk research summarized above highlights multiple labor market gaps between immigrants and natives. These gaps vary by measure and across countries and immigrant groups, as well as over time. Participation gaps often favor labor immigrants, as their main purpose is to advance their careers. However, immigrants often face barriers to employment, resulting in a higher incidence of unemployment or lower quality employment. Some of the gaps identified may decline with time spent in the host country, but this process is generally sluggish and incomplete. Some of the main barriers to immigrant integration include a lack of host-country-specific human capital, the imperfect transferability of human capital, non-recognition of foreign qualifications, or discrimination.

Institutional and policy factors interact with these integration barriers, and may affect immigrant labor market integration both positively and negatively. In this section we study how integration policies affect immigrant integration in host labor markets. Specifically, the empirical framework elaborated in this section enables us to study immigrant-native labor market gaps as functions of the quality of immigration and integration legislation measured by the MIPEX index described above.

We measure immigrant-native labor market gaps using the 2004-2011 waves of the EU Labor Force Survey (EU LFS),which provides a total of 8.8 million observations, and decomposition techniques following the approach applied by Guzi and Kahanec (2015) and Guzi et al (2015b). This approach, based on the empirical techniques developed by Oaxaca (1973) and Blinder (1973), and extended by Yun (2004) to nonlinear models, decomposes immigrant-native gaps into two components. First, it identifies how much of the gap can be explained by immigrant-native differences in characteristics such as education, gender, age and region of residence (by density of population). Second, it measures the gap that cannot be explained by these differences in characteristics, and which results from the unequal treatment or behavior of observationally identical immigrant and native populations in the labor market. This may reflect differing returns to human capital, unobserved differences in social and ethnic capital, or discrimination. The unexplained immigrant-native labor market gaps are estimated separately for each country and each year, so that we can create a panel dataset.

Guzi and Kahanec (2015) and Guzi et al. (2015b) show that a significant proportion of the observed gaps remains unexplained, even after controlling for differences in the composition of the immigrant and native populations. Following Guzi et al. (2015a), in this part of the report we will explain how migration policy legislation affects this unexplained component of the immigrant-native labor market gaps that can be observed across the EU.[4]

We focus on gaps in four labor market outcome variables: labor force participation, unemployment, low-skilled employment, and temporary contracts. These reflect complementary perspectives on immigrant integration: access to the labor market (participation), ability to achieve a positive outcome (employment), and ability to achieve an outcome of adequate quality (occupational status, permanent contract).

Integration policies are measured using the MIPEX index, published in 2004, 2007 and 2010. The MIPEX

[4]Guzi et al. (2015a) look at both the unexplained and explained components.

index is commonly used in economic research as a benchmark tool (e.g. Ramos, Matano, and Nieto, 2013; Bisin et al., 2011; Artiles and Meardi, 2014). It measures immigration policies as stipulated by formal regulation; hence, it ignores important aspects such as the interpretation and implementation of those formal regulations. Compared to other existing measures of immigration policy, however, the MIPEX index has the broadest coverage (span of countries and length of time period) and is the most comprehensive (see review by Helblinget al.2014).

The 2004 MIPEX index was constructed for EU15 countries and reflects the level of immigrant integration policies in five policy areas: labor market access, family reunion, long term residence, access to citizenship, and anti-discrimination. Better access to the host-country's labor market helps immigrants to pursue successful careers and better match their skills to where they can use them most efficiently. Policy provisions facilitating family reunion enable migrants to bring over and integrate their family members into the host society. This provides immigrants with additional motivation to integrate in the host society, especially with regard to the integration prospects of their children. Facilitated access to long-term resident status and citizenship provides immigrants with enhanced social and political rights, and reduces uncertainty about their stay in the host country. This not only opens up additional opportunities for them in the host labor market, but also motivates them to invest in human capital specific to their host country. Anti-discrimination legislation has similar motivational effects, as it outlaws discrimination against immigrants and various forms of unequal treatment and harassment.

The 2007 and 2010 releases of the MIPEX index were extended to include all 27 EU countries and two additional policy areas (education and political participation). However, the methodology was also updated before the 2007 MIPEX study, and as a result, the 2004 MIPEX index is not fully consistent with the 2007 and 2010 figures. We apply a transformation that makes the scores published in 2007 and 2010 comparable to the 2004 figures. This is achieved by rescaling the MIPEX figures with respect to the EU average. The adjusted MIPEX indices for the EU15 countries are shown in Table 1. The level of integration is measured relative to the EU average, which is set to 1. The quality of legislation in immigrant integration is hence measured relative to the situation in other countries: higher numbers indicate more favorable policies for migrants in the corresponding policy area (numbers greater than 1.0 indicate above-average favorability). In our analysis, the indices in the missing years (when no MIPEX index data was collected) are interpolated using a linear interpolation. Each country's overall score is calculated as an average across the five MIPEX policy areas covered in this study.

Based on the overall scores, Sweden, Portugal and Belgium top the list of countries with the most immigrant-friendly integration policies, while Austria and Ireland had the lowest ranked immigration policies in 2010. Importantly for our panel analysis, the figures show that scores vary significantly both from country to country and over time.

Table 1 - Immigrant integration policies

	Labor mobility			Family reunion			Residence			Citizenship			Anti-discrimination			Overall score		
	2004	2007	2010	2004	2007	2010	2004	2007	2010	2004	2007	2010	2004	2007	2010	2004	2007	2010
AT	0.87	0.85	0.93	0.93	0.86	0.69	0.71	0.90	0.40	0.64	0.84	0.66	0.97	0.37	0.62	0.89	0.67	0.69
BE	1.22	1.11	1.11	1.08	1.34	0.83	1.15	1.06	1.28	1.12	0.79	1.11	1.31	1.19	1.22	1.17	1.09	1.12
DE	0.92	1.06	0.99	0.90	0.79	1.20	1.01	0.83	0.97	0.77	1.15	0.98	0.83	1.02	0.75	0.93	0.96	0.95
DK	0.82	0.77	1.03	0.79	0.69	1.00	0.60	1.06	0.62	0.67	1.09	0.60	1.10	0.57	0.72	0.82	0.79	0.82
ES	1.28	1.04	1.09	1.02	1.08	1.24	1.25	1.18	0.72	0.78	1.26	1.38	1.29	0.67	0.76	1.10	1.03	1.07
FI	1.02	1.16	1.07	0.99	1.01	1.11	1.14	0.97	1.01	1.23	1.06	1.14	0.97	0.98	1.21	1.05	1.09	1.07
FR	0.97	1.06	1.11	1.14	1.01	0.76	0.86	0.75	1.10	1.20	0.73	0.84	0.76	1.02	1.20	1.06	0.94	0.91
GR	0.82	0.87	0.82	0.84	0.79	0.70	0.77	0.93	0.34	0.80	0.74	0.80	0.94	0.98	0.77	0.83	0.71	0.85
IE	0.87	0.94	0.76	1.08	1.14	0.66	0.59	0.70	1.12	0.88	0.59	0.55	0.71	1.01	0.98	0.96	0.79	0.77
IT	1.02	0.99	0.95	1.02	0.95	1.08	1.27	1.14	1.20	0.99	1.03	1.20	1.09	1.09	0.96	0.99	1.14	1.07
LU	0.82	0.92	0.92	1.08	0.64	0.70	0.87	0.94	0.64	0.75	0.71	1.08	0.93	1.15	0.74	0.87	0.78	0.92
NL	1.17	1.04	1.13	0.96	1.23	1.34	0.97	1.12	1.21	1.09	1.28	0.94	1.13	1.13	1.05	1.11	1.15	1.11
PT	1.12	1.06	0.99	1.05	1.28	1.26	1.45	0.91	1.53	1.35	1.40	1.47	1.14	1.42	1.30	1.10	1.30	1.35
SE	1.07	1.14	1.07	1.05	1.20	1.57	1.45	1.28	1.48	1.41	1.50	1.37	1.29	1.37	1.37	1.11	1.44	1.38
UK	1.02	0.99	0.99	1.08	0.99	0.87	0.92	1.22	1.40	1.31	0.83	0.87	0.52	1.03	1.34	1.02	1.14	0.92

Source: Own calculations based on the MIPEX index available at mipex.eu.
Note: Higher numbers indicate more favorable policy; scores rescaled such that EU average equals 1.

Table 2 reports unexplained immigrant-native gaps in the four areas studied: labor force participation, unemployment, low-skilled employment and temporary employment, by year and by MIPEX score. We see that these unexplained gaps disadvantage immigrants in relation to all four measures of labor market outcomes. In countries with higher MIPEX scores immigrants achieve slightly better results in terms of the probability of low-skilled employment, but when it comes to labor force participation, unemployment and temporary employment the immigrant-native gaps are, contrary to expectations, somewhat greater in countries with better integration policies (as shown by higher MIPEX scores). It is important to note that these descriptive findings may be confounded by various correlates that mask the true relationship between integration policies and immigrant integration.

Table 2 - Unexplained immigrant-native gaps

	LM Participation	Unemployment status	Low skill job	Temporary contract
All countries				
2004	-0.044	0.049	0.075	0.062
2005	-0.037	0.045	0.089	0.062
2006	-0.037	0.037	0.086	0.057
2007	-0.032	0.034	0.089	0.056
2008	-0.029	0.032	0.088	0.055
2009	-0.032	0.044	0.090	0.044
2010	-0.028	0.048	0.093	0.049
2011	-0.030	0.047	0.096	0.049
2012	-0.035	0.048	0.094	0.043
High integration countries (high MIPEX)				
2004	-0.060	0.057	0.066	0.091
2005	-0.050	0.051	0.082	0.084
2006	-0.048	0.044	0.082	0.084
2007	-0.040	0.040	0.084	0.083
2008	-0.035	0.037	0.084	0.077
2009	-0.037	0.050	0.086	0.065
2010	-0.031	0.054	0.092	0.067
2011	-0.034	0.054	0.095	0.064
2012	-0.035	0.053	0.088	0.054
Low integration countries (low MIPEX)				
2004	-0.028	0.041	0.084	0.032
2005	-0.020	0.037	0.097	0.033
2006	-0.026	0.028	0.092	0.026
2007	-0.024	0.027	0.095	0.025
2008	-0.022	0.025	0.092	0.030
2009	-0.026	0.037	0.095	0.021
2010	-0.025	0.042	0.093	0.028
2011	-0.027	0.039	0.097	0.032
2012	-0.034	0.043	0.100	0.032

Source: Own calculations based on the 2004-2012 waves of EU-LFS (8.8million observations). MIPEX scores taken from mipex.eu
Note: Unexplained immigrant-native gaps are obtained using Oaxaca-Blinder decompositions. Countries are partitioned based on the MIPEX index, with overall MIPEX score used to split the sample into high-integration countries (BE, ES, FI, IT, NL, PT, SE, UK) and low-integration countries (AT, DE, DK, FR, GR, IE, LU).

In order to study the independent effects of MIPEX scores on unexplained immigrant-native labor market gaps, we develop an OLS empirical model, following Guzi et al. (2015a, 2015b). We control for GDP per capita and unemployment rate, as well as year and country fixed effects, in a panel regression. The results are summarized in Table 3. We find that better immigration policies as measured by overall MIPEX scores (columns 1, 3, 5 and 7) seem to decrease the immigrant-native gap in the prevalence of low-skilled employment, but, somewhat surprisingly, appear to increase gaps in unemployment. These results may, however, be due to the aggregation of various underlying components into the overall MIPEX index score.

We therefore examine how the individual components of the MIPEX index, considered simultaneously, relate to immigrant-native labor market gaps. In columns 2, 4, 6 and 8 we find that immigrant-favorable integration policies in the area of labor market mobility reduce the frequency of low-skilled employment

among immigrants, relative to the frequency among the native population. That finding is in line with the notion that giving immigrants better access to the labor market enables them to find jobs that are better matched to their skills, and hence reduce the problem of down-skilling whereby immigrants often work in jobs requiring skills below their level of formal qualification.

Family reunion integration policies significantly decrease immigrant-native gaps in temporary employment, although there is a marginally significant coefficient indicating that such policies may increase the unemployment gap. Since family reunion is likely to be correlated with the immigrants' intention to remain more permanently in the host country, the effects on gaps in temporary employment are not surprising. At the same time, some immigrants who move for family purposes, and may hence be tied to certain region and face additional administrative barriers in the labor market, may be less able to find a job on the host country labor market. Better access to long-term residence only has a marginally significant effect on reducing the immigrant-native gap in low-skilled employment. Policies that facilitate access to citizenship seem to, rather unexpectedly, increase immigrant-native gaps in both temporary and low-skilled employment. Lastly, as one might expect, better anti-discrimination legislation reduces immigrant-native gaps in unemployment rate, although for the other outcome variables the effect is not statistically significant.

As for the control variables, an increase in per-capita GDP decreases immigrant-native gaps in temporary and low-skilled employment. Higher unemployment rates seem to disproportionally affect the immigrant workforce, but reduce the immigrant-native gaps in temporary employment and, at least for the more parsimonious model, low-skilled employment.

These findings point to the role of migration integration policy as an important instrument capable of reducing the unexplained labor market gaps between natives and immigrants. Integration efforts in the various fields examined yield non-trivial effects on immigrants' labor market outcomes through different channels. Our analysis has also identified possible gaps in policy effectiveness, which might be due to implementation limits. The results also point out those areas where policy decisions to date seem to have been most effective, which may be useful as guidance to countries whose immigrant integration policies are currently less developed.

Table 3 - Migration policy and immigrant-native gaps

	LM participation		Unemployment status		Temporary contract		Low-skill occupation	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Overall score	-0.0003		0.0003 **		0.0002		-0.0004 *	
	(0.000)		(0.000)		(0.000)		(0.000)	
Labor mobility		-0.0001		-0.0001		-0.0003		-0.0005 ***
		(0.000)		(0.000)		(0.000)		(0.000)
Family reunion		-0.0002		0.0003 *		-0.0007 ***		-0.0003
		(0.000)		(0.000)		(0.000)		(0.000)
Residence		0.0000		0.0000		-0.0001		-0.0002 *
		(0.000)		(0.000)		(0.000)		(0.000)
Citizenship		0.0000		0.0001		0.0007 ***		0.0003 ***
		(0.000)		(0.000)		(0.000)		(0.000)
Anti-discrimination		0.0002		-0.0004 ***		-0.0002		0.0001
		(0.000)		(0.000)		(0.000)		(0.000)
Per-capita GDP	0.0546	0.0815	0.0202	-0.0072	-0.2666 **	-0.0287	-0.2269 ***	-0.0375
	(0.073)	(0.083)	(0.052)	(0.066)	(0.107)	(0.096)	(0.076)	(0.094)
Unemployment rate	0.0009	0.0013	0.0037 ***	0.0031 ***	-0.0057 ***	-0.0034 ***	-0.0019 **	-0.0003
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
N	133	133	133	133	133	133	133	133
r2	0.95	0.96	0.86	0.88	0.89	0.92	0.93	0.94

Note: Estimation sample includes 133 observations. The dependent variable is unexplained immigrant-native gap, as obtained using Oaxaca-Blinder decompositions, on EU LFS panel data 2004-2012 for EU15 countries (see Table 2). Control variables are MIPEX index scores in the respective fields, unemployment rate, and GDP per capita. All models include year and country fixed effects. Robust standard errors are given in parentheses, * p<0.1, ** p<0.05, *** p<0.01.

6. CONCLUSIONS

Migration's positive effects tend be a function of the economic potential of the migrants, and in particular their human capital, and the efficiency with which this potential is utilized. On the macro-level, most studies have found that migration has positive effects on GDP growth and employment growth as well as on the aggregate wages of the national labor force. Migration may also have negative effects, notably at the micro level in areas with a high concentration of immigrants; such effects tend to concern low-skilled domestic workers and other immigrants. Evidence from a number of countries shows that immigration contributes positively to economic and social variables such as trade creation, foreign direct investment and innovation; for the purposes of this paper, however, we focused on how migration affects labor market outcomes.

In this report we have studied the effects of migration policies and immigrant integration policies on immigrant integration into receiving countries' labor markets. We have reviewed existing studies in the field, which have helped to identify general trends. Participation rates among migrants vary for different migrant groups, based on the migrants' mode of entry and country of origin, as well as on their country of destination. In general, intra-EU migrants from recently admitted states tend to have very high participation rates, while third country migrants often face greater barriers to labor market integration. Employment and unemployment rates among immigrants in EU host countries vary considerably, with foreign nationals typically having lower employment rates and higher unemployment rates than natives. Participation and employment gaps may decline with time since migration and when controlling for individual characteristics.

Post-accession intra-EU migrants generally have high (waged) employment rates, but often work in jobs below their skill level, and typically work in less-skilled occupations than natives. Immigrants typically earn less than natives upon arrival, and the earnings gap does not fully disappear with years since migration. Wage gaps differ across receiving countries and by country of origin; these tend to decrease over time, but do not completely converge with time since arrival in host country. Possible explanations given in the literature for the existence of this income gap include the imperfect transferability of human capital, differences in educational systems, different cultural backgrounds, poor recognition of qualifications, discrimination or structural conditions drawing migrants into low-skilled and low-paid sectors.

Tenure in the host country labor market is one of the key predictors of labor market assimilation. Some studies point out that migrants with strong ethnic identity are less likely to integrate into the host country's labor market, and this might indicate that individual preferences affect this outcome. Other studies highlight structural barriers in assimilation, especially job segregation and the concentration of immigrant employment in sectors and jobs which do not offer opportunities for occupational growth.

All these trends identified in the literature may, however, be affected by immigration policy decisions in the host country. Our analysis has investigated this, using calculations of immigrant-native gaps in labor market outcomes, and data from the MIPEX index, which provides a harmonized measure of immigrant integration policies in the EU, Norway, Switzerland, Canada and the US. This unique data enables us to study how integration policies implemented in these countries to date have influenced immigrant-native labor market gaps in four areas: labor market participation, unemployment rate, incidence of temporary contracts, and low-skilled employment.

Our empirical analysis shows that an important portion of the labor market performance gaps that exist in EU destination countries cannot be accounted for by differences between immigrants and natives at the level of individual characteristics. We show, however, that immigration policies have the potential to reduce such immigrant-native labor market gaps. With robust estimation techniques that cover many EU countries over time, we have shown that integration policies can exert a non-trivial effect on migrants'

outcomes in the host labor market and that certain types of interventions are most effective in certain outcome areas. As we have demonstrated, anti-discrimination policies improve immigrants' employment prospects, family reunification integration policies seem to improve immigrants prospects of having permanent employment (lowering the relative share of immigrants in temporary employment), and labor market access policies enable migrants to find jobs that better match their skills. These observations may serve as guidance to countries when making future policy decisions in the area of immigrant integration.

This report contributes to the debate about the effectiveness and usefulness of migration and integration policies, which has so far been unsettled. Many studies have argued that immigration policy has an influence on the scale of migration, on the composition of immigrant inflows, and on patterns of assimilation. Other scholars insist that policy restrictions have limited effects because migration is driven by a more complex set of factors, including economic, demographic and political developments and structural conditions in the migrants' origin and destination states. Our analysis has confirmed that policy introduced in the destination country has some significant effects on the immigrant-native labor market gaps in that country that go beyond the immigrant-native differences in individual characteristics.

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