

# **Dealing with the Refugee Crisis: Policy Lessons from Economics and Political Science**

**Dominik Hangartner**

Department of Government, London School of Economics and  
Immigration Policy Lab, Stanford University and University of Zurich

**Matti Sarvimäki**

Department of Economics, Aalto University School of Business and  
VATT Institute for Economic Research

with contributions from

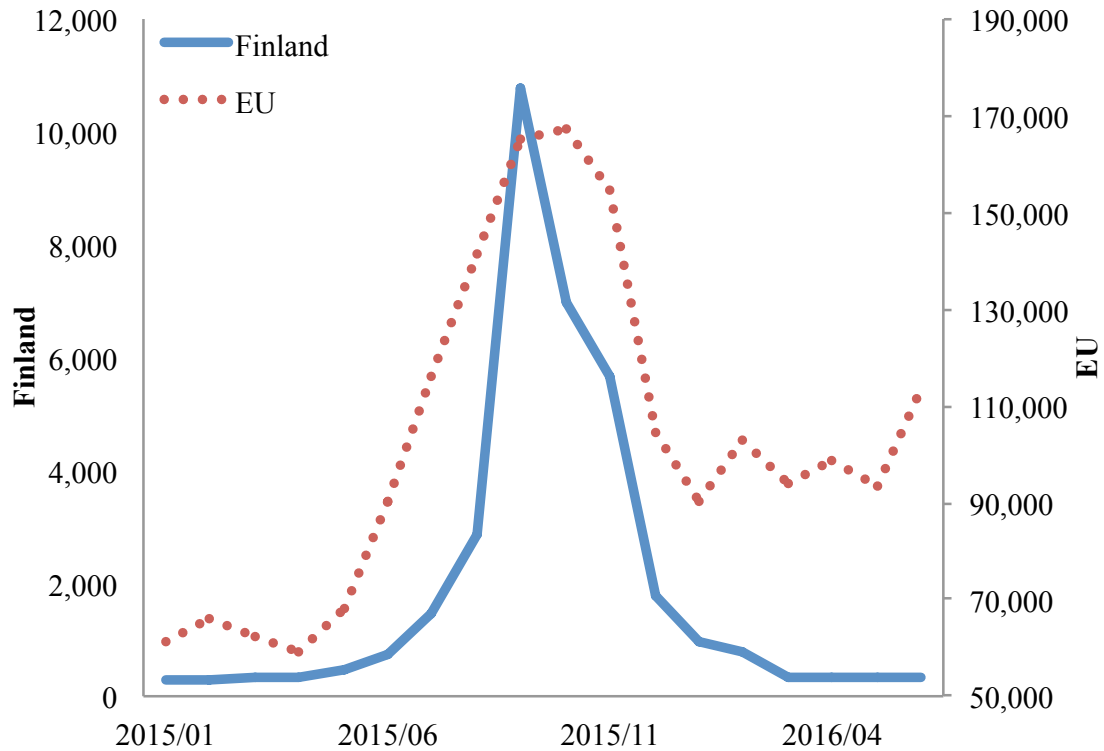
Judith Spirig, Immigration Policy Lab, Stanford University and University of Zurich

## **1 Introduction**

In the summer of 2015, the European Union faced a sudden increase in the number of people applying for asylum. Figure 1 shows how the number of asylum applications increased during the year 2015 and hit the peak of almost 170,000 applications in October 2015. In Finland, the peak was reached already in September, when more than 10,000 new asylum seekers arrived. In total, Finland experienced a 890% increase in asylum applications in comparison to the previous year. Since many asylum seekers are from countries with protracted conflicts like Iraq and Syria, it is not only the number of asylum claims that has increased, but also the number of people who will be living – temporarily or indefinitely – in European countries. Thus states face a number of short- as well as long-term challenges on how to handle the asylum procedure and integration of new generation of residents.

This paper aims to help addressing these challenges by providing a review of the relevant economics and political science research on immigration and integration of refugees and asylum seekers. We start with an overview of the 2015 “refugee protection crisis” in Section 2, where we document the differences and similarities in context that European countries face regarding asylum seekers, discuss what kind of asylum policies European citizens prefer, and highlight recent policy changes by European governments. Throughout, we will focus on Finland and contrast the Finnish experience with those of the other European countries.

In Section 3, we discuss the likely effects of refugees on host countries’ economies and politics. We argue that receiving refugees is unlikely to have an important effect on native wages or employment, but may affect native’s disposable income through public finances. Yet, evaluating the magnitude of these fiscal effects is difficult. Existing research shows that refugees tend to struggle to find stable employment and thus pay less taxes and receive more social benefits than natives. The short-term fiscal impact is hence clearly negative. Available estimates suggest that previously arrived working-age immigrants from Iraq and Somalia have constituted an annual net cost of roughly €10,000 per person to the Finnish public sector. However, it is not clear how one should extrapolate from these findings. The long-term fiscal effects are



**Figure 1:** Monthly asylum applications to Finland (left axis) and to the EU as a whole (right axis) between January 2015 and June 2016. Data source: Eurostat.

determined by a combination of the labor market integration of the refugees and their children *and* the way the host countries arrange their social transfers, public services and taxes. These factors are hard to predict and, of course, profoundly affected by the policy decisions made now and in the future.

Even if the fiscal effects would be significant, we argue that the potential for truly transformative effects of the refugee crisis lies in its possible impact on the broader political process. We do not have to look far for anecdotes supporting this view. For example, fears about refugees loomed large in the debate preceding the vote for Britain’s exit from the EU despite the UK receiving relatively few asylum seekers in 2015.<sup>1</sup> While it is hard to predict the economic impact of the UK leaving the EU, these effects are likely to be orders of magnitudes larger than any conceivable labor market or fiscal effect of receiving even a large number of refugees.

Anecdotes may be suggestive, but they are poor substitutes for empirical evidence. We present a careful review of research examining the impact of refugees, and overall immigration, on political outcomes. Much of this research suggests that immigration increases the vote share of populist, anti-immigration parties. However, analyzing recent work comparatively emphasizes the importance of the context within which immigration takes place. We discuss how these results provide hints as to which contextual factors might prove crucial for reducing anti-immigrant sentiment and fostering inclusive communities. Taking into consideration the different context, the existing evidence suggests that relevant factors moderating the effect of immigration

<sup>1</sup> See, for example, one UKIP’s Brexit campaign posters: <https://www.theguardian.com/politics/2016/jun/16/nigel-farage-defends-ukip-breaking-point-poster-queue-of-migrants>

are, among others, the prevalent narrative about immigration, the political and economic characteristics of the places where asylum seekers are accommodated, and the integration procedure. Accordingly, we suggest that a few concrete measures could help tackling the potential for anti-immigrant backlash: providing timely information to locals, facilitating repeated interaction between locals and future residents and ensuring that the allocation of asylum seekers is perceived as ‘fair’ and takes into account the heterogeneity in the responses of the local population.

Furthermore, the fiscal, and perhaps also the political, impacts of immigration depend crucially on the extent to which immigrants integrate into the host countries’ labor markets. Thus a key question facing policy makers is how to design efficient integration policies. In Section 4, we address this question by reviewing impact evaluations of (broadly defined) integration policies. We focus on studies using a plausible research design and draw four lessons. First, interventions that have focused on improving the match quality between active labor market policy measures and the individual characteristics of each immigrant have had large effects. Second, long waiting periods, such as those arising from lengthy asylum process, reduce later employment prospects. Third, uncertainty regarding the right to stay in the host country has a detrimental effect on labor market integration. Fourth, proficiency in local language is strongly associated with labor market success and there are good reasons to think that at least part of this association reflects a causal effect of language skills on labor market success.

In the final Section, we offer some concluding remarks.

## **2 Overview of the 2015 refugee crisis**

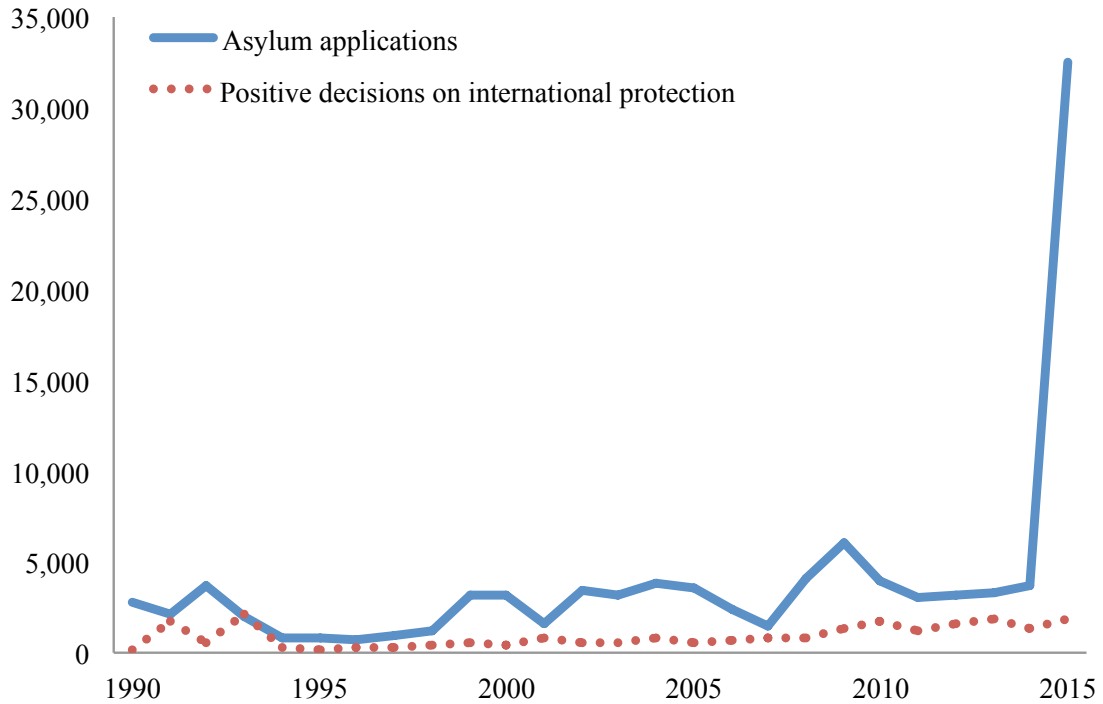
In this section, we present an overview of what is often referred to as the European “refugee (protection) crisis”. We start by comparing Finland’s current situation (between January 2015 and June 2016) to its own past immigration experience and to the flows of asylum seekers into other European countries in 2015. We then discuss recent research that has examined the perception of European citizens on how asylum seekers should be allocated across Europe and who should be granted asylum. At the end of this section, we present an overview of the policy responses to the increased arrival of asylum seekers across Europe.

### **2.1 The 2015 refugee crisis in context**

In 2015, Finland received 32,476 asylum applications and roughly 10,000 of them are expected to be approved.<sup>2</sup> Such high numbers had not been documented since the post-WWII period. As shown in Figure 2, the number of annual asylum applications had ranged between 1,500 and 6,000 in 1990–2014. During this quarter century, a total of 68,187 asylum applications were received and 21,801 individuals were granted asylum in Finland (the latter number includes quota refugees).

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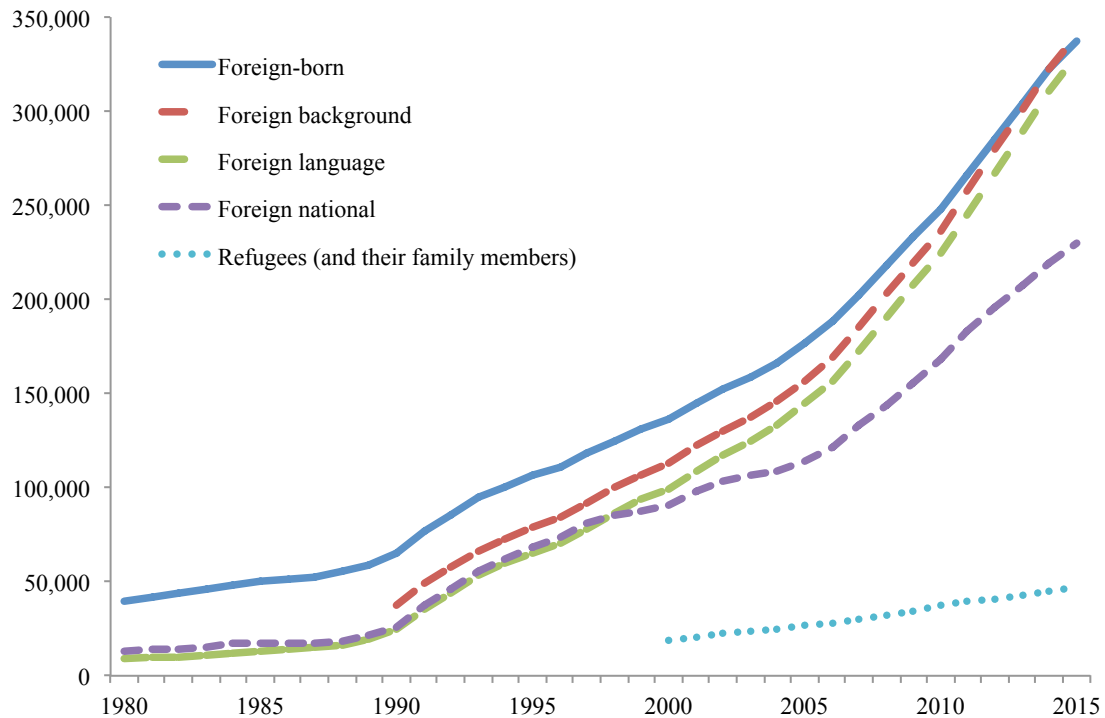
<sup>2</sup> [https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Sivut/HE\\_169+2016.aspx](https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Sivut/HE_169+2016.aspx)



**Figure 2:** Asylum applications and positive decisions on international protection in Finland, 1990–2015. Data source: Finnish Immigration Service.

While the relatively large number of asylum seekers in 2015 was certainly a dramatic change in comparison to the past decades, it was not unprecedented. In 1922, Finland hosted at least 20,000 refugees who had fled the Russian revolution (Martikainen, Saari and Korkeasaari 2013). During World War II, 430,000 persons were internally displaced from areas ceded to the Soviet Union and resettled to the remaining parts of the country. In addition, 63,000 Ingrian Finns were moved to Finland during the war, but then returned to the Soviet Union. In the early 1990s, they were granted a return migrant status and roughly 30,000 Ingrian Finns moved to Finland during the next two decades.

Another way to put the 2015 inflow of asylum seekers into context is to compare it to Finland’s larger immigration experience. As shown in Figure 3, the total immigrant population grew almost nine fold from 37,000 in 1990 to 340,000 in 2015 (or from 0.8 to 6.2 percent of the Finnish population). In the 2010s, Finland’s immigrant population has increased by roughly 20,000 individuals each year. Prior to the 2015 “refugee (protection) crisis”, at most 15% of the immigrants living in Finland had arrived due to need of international protection or family members of those granted asylum. Assuming that 10,000 of the asylum applications filed in 2015 would be approved, the share of refugees out of the total immigrant population would increase to at most 16–17%.

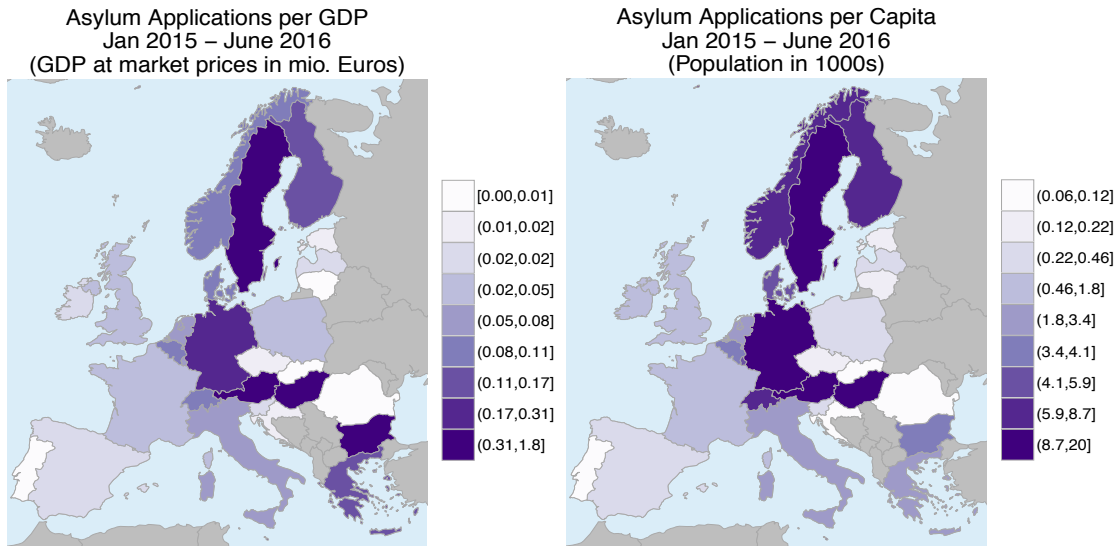


**Figure 3:** Immigrants in Finland, 1980–2015. The top solid line reports the number of foreign-born individuals living in Finland at the end of each year. The upper dashed line reports the number of individuals with foreign background as defined by Statistics Finland. The middle dashed line corresponds to the number of individuals whose registered mother language is not Finnish, Swedish or Saame. The lower dashed line is the number of foreign nationals. The bottom dotted line is the number of refugees and their family members. Data source: Statistics Finland.

The third context we provide is a comparison to other ‘Dublin countries’ in 2015–2016.<sup>3</sup> Figure 4 shows that there are stark differences in terms of the reception of asylum seekers. These differences pertain to the entire asylum system: the number of submitted asylum application, grant rates, the ethnic, religious, and national background of the asylum seekers, as well as the country’s asylum and integration policies.<sup>4</sup> In this context, Finland has received a relatively large proportion of the asylum applications. Based on countries’ GDP (at market prices in mio. Euros), only Hungary, Bulgaria, Sweden, Austria, Malta, Germany and Cyprus have received more applications than Finland. This picture is similar in per capita terms: Only Hungary, Sweden, Austria and Germany have received more applications.

<sup>3</sup> ‘Dublin countries’ are all EU Member States that apply the Dublin Regulation and its amendment, as well as the non-EU EFTA countries Norway, Iceland, Switzerland and Liechtenstein. Denmark has a separate but similar agreement with the EU.

<sup>4</sup> This report only discusses cross-country differences in terms of relative application numbers and asylum seekers’ countries of origin. It should not go left unnoted, however, that considerable variation across Europe also exists with regard to reception conditions and asylum grant rates (see, for example, Mestheneos and Ioannidi, 2002; van der Klaaw, 2002; Vink and Meijerink, 2003; Neumayer, 2005; Angenendt, Engler, and Schneider, 2013).

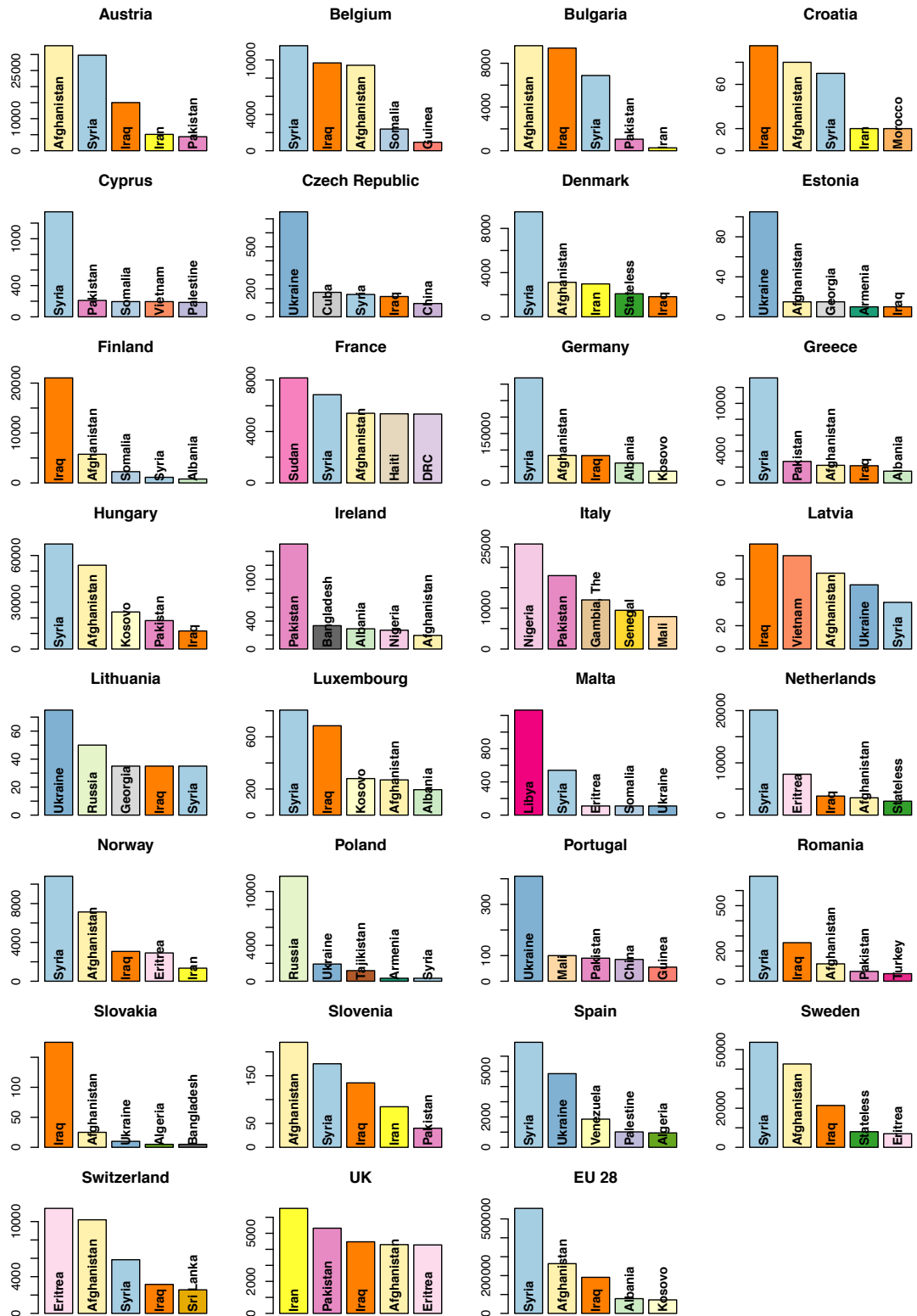


**Figure 4:** These graphs display the variation of first time asylum applications received by European states, relative to GDP (left) and per capita (right).<sup>5</sup> Independent of the denominators used, countries such as Sweden, Germany, Austria, Hungary and Finland carry a relatively large responsibility. Data source: Eurostat.

Finally, Figure 5 presents an overview of the five most frequent nationalities among first-time asylum applicants in European countries.<sup>6</sup> In addition to the large variation in absolute and relative numbers discussed above, this figure illustrates stark differences in the composition of asylum seekers' countries of origin. Taking all EU28 states together, Syrian nationals represented by far the largest group (over 550,000 first-time asylum applications). The second and third most frequently immigrated asylum seekers are Afghan and Iraqi nationals (over 260,000 and 190,000 applications, respectively). However, there is large variation in the origin country mix across EU28 countries. Among the Nordic countries, Syrians were, by far, the largest group in Sweden, Denmark and Norway, while Finland received most applications from Iraqis (~21,000 applications), followed by Afghan, Somali and Syrian asylum seekers (~5,700, ~2,200 and ~1,100 applications).

<sup>5</sup> Note that the categories are not equidistant, but are balanced based on how many observations they include.

<sup>6</sup> Liechtenstein and Iceland were dropped from the analysis because of missing data.



**Figure 5:** Five most frequent countries of origin of first time asylum applicants across Europe between January 2015 and June 2016. The y-axis indicates the number of applications registered in each country. The data were taken from Eurostat.

## **2.2 What kind of asylum policy would Europeans prefer?**

The increase in asylum applications and the differences across European countries have not gone unnoted. Asylum law experts and policy-makers alike have repeatedly expressed concern about the unequal distribution of asylum seekers across Europe, the Dublin regulation, and how the EU is handling the increasing pressure at its borders (see, e.g., Thielemann, 2010; Angenendt, Engler, and Schneider, 2013; Malmström, 2014). Furthermore, citizens across Europe share the impression that the Dublin system is unfair. Employing an online survey experiment involving 18,000 voters across fifteen European countries, Bansak, Hainmueller and Hangartner (2016b) find that only 18% of respondents support the current Dublin regulations, which state that asylum seekers have to submit their claim in the European country of first entry. Interestingly, the support is very low even in countries that benefit from the current status quo. In stark contrast, 70% of respondents prefer proportional allocation of asylum seekers based on the country's capacity (a function of population size, GDP, unemployment rate, and number of past applications). When voters are randomly prompted with the actual numbers of asylum seekers their country would receive under each allocation, they are somewhat more likely to support the allocation that yields the lowest number of asylum seekers for their own country. However, even under this treatment condition, in all but three countries (Czech Republic, Poland, and the UK) a majority of voters prefers proportional allocation over the status quo. (Note that ten out of the fifteen countries would have to host more asylum seekers under proportional allocation.) These findings indicate that a majority of citizens is willing to provide refuge to additional asylum seekers as long as they know that the overall allocation across 'Dublin countries' is proportional to a country's capacity.

In a companion paper based on the same survey, Bansak, Hainmueller and Hangartner (2016a) employ a conjoint analysis asking the 18,000 respondents to evaluate fictitious profiles of asylum seekers that randomly varied along relevant attributes. They find that asylum seekers who are high-skilled, contribute to the host country's economy, have more consistent asylum testimonies and severe vulnerabilities, and are Christian rather than Muslim receive the greatest public support. Bansak, Hainmueller and Hangartner (2016a) argue that these results point to tough challenges for policy makers who are struggling to meet their legal responsibilities to protect refugees in line with the 1951 Refugee Convention. The public's strong anti-Muslim bias and preference for highly skilled asylum seekers who can speak the language of the host country hinder the acceptance and integration of asylum seekers given that most currently originate from Muslim-majority countries and may lack the desired professional and language skills. At the same time, Bansak, Hainmueller and Hangartner (2016a) argue that the findings also point to opportunities for policy makers: the fact that citizens across Europe share common humanitarian concerns for refugees with consistent asylum claims suggests that large segments of the public has at least partially internalized the central pillars of international refugee law.

## **2.3 Policy responses**

European countries have adopted various changes in and amendments to asylum and integration policies in response to the rising number of asylum seekers since 2015. Initially, some responses made seeking asylum easier. Most notably, for a short period, Germany stopped sending Syrian refugees back to the country of first entry and started invoking the sovereignty clause of the Dublin regulation, i.e. to evaluate



Syrian asylum seekers' claims in Germany.<sup>7</sup> In 2013, before the dramatic increase observed in 2015, Sweden had announced that it would grant permanent residency permits to all Syrians coming to Sweden. However, the more recent changes in asylum policies have been almost exclusively more restrictive and aimed to reduce the number of (staying) asylum seekers—including Germany retracting from the invocation of the sovereignty clause and Sweden no longer offering permanent residency permits upon arrival.<sup>8</sup> On the other hand, many countries have introduced new integration policies focusing on asylum seekers with a high probability of staying or already accepted refugees with the main goal to facilitate their labor market integration.

We next highlight some of the recent policy responses by European countries. Our list is by no means exhaustive,<sup>9</sup> but it does illustrate ongoing policy experimentation. Recent asylum policy changes include:

- a. **Border control:** In May 2016, the Council of the European Union suggested that Greece improves its border control and expressed its consent with some member states' temporary re-introduction of internal border controls, arguing it “provide[s] an adequate response to the identified threat to the internal security and public policy in compliance with the Schengen Borders Code, and these measures are necessary and are considered proportionate.” (see Council of the European Union 2015). These controls have been established in *Germany, Austria, Switzerland, Denmark, Sweden, and Norway* between May and June 2016.<sup>10</sup> *Austria* passed a law that allows for a declaration of a ‘state of emergency over migration’, giving the permission to stop asylum seekers at the border before being able to lodge an asylum claim on the basis that asylum seekers’ claim could also be tried in the country they are trying to leave (see, EMN 2016). *Switzerland* and *Germany*, too, have (at least at times) dramatically increased presence of border guards controlling and barring potential asylum seekers from entering.<sup>11</sup> *Norway* has adopted amendments that will allow them to “refuse entry to asylum seekers at the borders with other Nordic countries”<sup>12</sup> and *Austria* has built a fence on its border with Slovenia.<sup>13</sup>

In March 2016, *Finland* and Russia have agreed on temporary border restrictions at two popular border-crossing points. Due to an increase of asylum seekers who have entered Finland from Russia, the Lapland entry points are only open for Russian, Finnish and Belarusian citizens and family members.<sup>14</sup>

- b. **Tightening the rules for granting residence permits and extensions of safe country lists:** *Germany*<sup>15</sup> plans to add Morocco, Algeria and Tunisia to the list

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<sup>7</sup> <https://www.proasyl.de/news/fataler-rueckschritt-wiedereinfuehrung-von-dublin-verfahren-fuer-syrische-fluechtlinge/>

<sup>8</sup> <http://www.government.se/articles/2015/11/government-proposes-measures-to-create-respite-for-swedish-refugee-reception/>

<sup>9</sup> For further information, see the quarterly EMN Bulletins (<http://emn.ie/index.jsp?p=210&n=207>), produced by the European Migration Network, which provide regular up-to-date information on EU-wide as well as national-level changes in asylum policy.

<sup>10</sup> See, for example, [http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/reintroduction-border-control/index\\_en.htm](http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/reintroduction-border-control/index_en.htm)

<sup>11</sup> [http://www.swissinfo.ch/eng/politics/what-to-do-\\_politicians-disagree-over-border-migrant-measures/42387820](http://www.swissinfo.ch/eng/politics/what-to-do-_politicians-disagree-over-border-migrant-measures/42387820)

<sup>12</sup> <https://www.regjeringen.no/en/aktuelt/nodvendige-innstramninger/id2505028/>

<sup>13</sup> <http://www.dw.com/en/austria-begins-erecting-fence-on-border-with-slovenia/a-18900764>

<sup>14</sup> <http://www.reuters.com/article/us-europe-migrants-finland-russia-idUSKCN0WO32P>

<sup>15</sup> [https://www.bundesregierung.de/Content/EN/Artikel/2016/05\\_en/2016-05-13-sichere-herkunftsstaaten\\_en.html](https://www.bundesregierung.de/Content/EN/Artikel/2016/05_en/2016-05-13-sichere-herkunftsstaaten_en.html)

of ‘safe countries of origin’<sup>16</sup> and has added Kosovo, Albania and Montenegro in 2015.<sup>17</sup> Since 1 June 2016 a smaller share of asylum seekers will be granted residence permits in *Sweden*.<sup>18</sup> *Belgium*<sup>19</sup> does no longer give out unlimited stay permits, but only temporary permits and has established a list of safe countries of origin in a Royal Decree in August 2016. The list includes Kosovo, Albania, Montenegro, Serbia, Bosnia and Herzegovina, Macedonia, India and Georgia.<sup>20</sup> The *Netherlands* have added Tunisia, Algeria, Georgia and Ukraine to their safe country of origin list in October 2016.<sup>21</sup> Earlier the same year, Ghana, India, Jamaica, Morocco, Mongolia and Senegal had already been added to the list.<sup>22</sup> *Norway* introduces new requirements that have to be met in order to receive permanent residence.<sup>23</sup>

*Finland* reviewed the security assessment of Afghanistan, Iraq and Somalia. In a press release published on 17 May 2016,<sup>24</sup> the Immigration Service announced that “In the past few months, the security situation has gradually improved in all three countries, although it may have got worse at times for certain specific areas locally. Due to the improved security situation, it will be more difficult for applicants from these countries to be granted a residence permit on the basis of subsidiary protection.” At the same time, Finland repealed one type of residence permit, “humanitarian protection”, which could earlier be granted to applicants who did not meet the requirements for refugee status or subsidiary protection, but could not return to her home country because of a bad security situation or an environmental catastrophe.

- c. **Raising the bar for family reunification:** *Sweden* abolished exceptions of the maintenance requirement for family reunification (see Swedish Government, 2015). Many other countries have become more restrictive about family reunification: *Denmark*,<sup>25</sup> *Belgium*<sup>26</sup> (extended the delay for family reunification), *Germany*<sup>27</sup> (family reunification scheme for asylum seekers with subsidiary protection only after two years), *Norway*<sup>28</sup> (for people with subsidiary protection).

*Finland* tightened regulation for family unification by changing the requirements on means of subsistence for those granted asylum after July 1<sup>st</sup>,

<sup>16</sup> So far, these lists have been established on a national level. Whereas some countries have rather elaborated lists, others do not have such lists (e.g. Italy). A EU-wide safe country of origin list is currently under way and should replace national lists in three years. For an overview, see <http://www.europarl.europa.eu/EPRS/EPRS-Briefing-569008-Safe-countries-of-origin-FINAL.pdf> and <http://www.europarl.europa.eu/news/en/news-room/20160707IPR36205/asylum-eu-list-of-safe-countries-of-origin-to-replace-national-lists-in-3-years>

<sup>17</sup> In 2014, it had already added Serbia, Bosnia-Herzegovina and Macedonia. See,

<http://www.asylumineurope.org/reports/country/Germany/asylum-procedure/safe-country-concepts>

<sup>18</sup> <http://www.migrationsverket.se/English/About-the-Migration-Agency/New-laws-in-2016.html>

<sup>19</sup> <http://www.cgra.be/en/news/recognised-refugees-brochure-updated-after-changes-law>

<sup>20</sup> <http://www.cgra.be/en/asylum/versnelde-procedures/safe-countries-origin>

<sup>21</sup> <https://www.government.nl/topics/asylum-policy/question-and-answer/list-safe-countries-of-origin>

<sup>22</sup> <https://www.government.nl/topics/asylum-policy/documents/parliamentary-documents/2016/02/09/expansion-of-national-list-of-safe-countries-of-origin>

<sup>23</sup> <https://www.regjeringen.no/en/aktuelt/nodvendige-innstramninger/id2505028/>

<sup>24</sup> [http://www.migri.fi/for\\_the\\_media/bulletins/press\\_releases/press\\_releases/1/0/humanitarian\\_protection\\_no\\_longer\\_granted\\_new\\_guidelines\\_issued\\_for\\_afghanistan\\_iraq\\_and\\_somalia\\_67594](http://www.migri.fi/for_the_media/bulletins/press_releases/press_releases/1/0/humanitarian_protection_no_longer_granted_new_guidelines_issued_for_afghanistan_iraq_and_somalia_67594)

<sup>25</sup> <http://www.loc.gov/law/foreign-news/article/denmark-law-to-stem-asylum-based-immigration/>

<sup>26</sup> <http://www.cgra.be/en/news/recognised-refugees-brochure-updated-after-changes-law>

<sup>27</sup> [https://www.bundesregierung.de/Content/EN/Artikel/2016/02\\_en/2016-02-04-asylpaket2\\_en.html](https://www.bundesregierung.de/Content/EN/Artikel/2016/02_en/2016-02-04-asylpaket2_en.html)

<sup>28</sup> <https://www.regjeringen.no/en/aktuelt/nodvendige-innstramninger/id2505028/>

2016.<sup>29</sup> According to the new rules, they can apply for family reunification only if they have a sufficient income. For instance, a person wishing to bring a spouse and two children to Finland would need to have a net market income of at least 2,600 euros per month. However, this income requirement does not apply to those granted refugee status if (a) the family was formed before the refugee arrived to Finland and (b) the applicant applies for family reunification within three months after being granted refugee status. Those who have been granted international protection on other grounds always have to fulfill the income requirement.

- d. **Reducing financial aid to asylum seekers:** *Denmark*<sup>30</sup> reduced economic aid to asylum seekers by 10%, *Germany*<sup>31</sup> modified benefits “taking into account the constitutional guidelines regarding minimum subsistence levels” and *Sweden*<sup>32</sup> cut accommodation and daily allowance of rejected asylum seekers.

In *Finland*, the Parliament started processing a Government Bill that would have reduced unemployment benefits for immigrants to 90% of the level of natives’ benefits.<sup>33</sup> However, the government withdrew the Bill after committee hearings.

- e. **Restricting publicly provided legal counseling:** Since 31 August 2016, *Finland* is no longer providing state-paid counsel during asylum-hearing with the exception “for exceptionally weighty reasons or if the applicant is an unaccompanied minor”.<sup>34</sup>
- f. **Confiscating (financial) assets upon arrival:** In January 2016, the *Danish* parliament “adopted several measures meant to reduce the number of asylum seekers arriving in Denmark”. Most controversial among them was a measure that allows “Danish Immigration Service to confiscate assets to support the asylum seeker’s stay in Denmark”. Similar announces have been made in the *Netherlands*.<sup>35</sup>
- g. **Restrictions on Remittances:** *Norway* “makes it much harder for asylum seekers to send money back home” and gives out vouchers instead of cash.<sup>36</sup>
- h. **Tighter regulations for rejected asylum seekers:** In *Sweden*, they are “no longer entitled to accommodation and daily allowance”,<sup>37</sup> *Germany*<sup>38</sup> lowers the bar for deportation.

<sup>29</sup>[http://www.migri.fi/our\\_services/customer\\_bulletins/bulletins\\_family/1/0/as\\_of\\_1\\_july\\_the\\_family\\_member\\_of\\_a\\_person\\_who\\_has\\_been\\_granted\\_international\\_protection\\_must\\_as\\_a\\_rule\\_have\\_secure\\_means\\_of\\_support\\_68571](http://www.migri.fi/our_services/customer_bulletins/bulletins_family/1/0/as_of_1_july_the_family_member_of_a_person_who_has_been_granted_international_protection_must_as_a_rule_have_secure_means_of_support_68571)

<sup>30</sup><http://www.loc.gov/law/foreign-news/article/denmark-law-to-stem-asylum-based-immigration/>

<sup>31</sup>[https://www.bundesregierung.de/Content/EN/Artikel/2016/02\\_en/2016-02-04-asylpaket2\\_en.html](https://www.bundesregierung.de/Content/EN/Artikel/2016/02_en/2016-02-04-asylpaket2_en.html)

<sup>32</sup><http://www.migrationsverket.se/English/About-the-Migration-Agency/New-laws-in-2016.html>

<sup>33</sup>[https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Sivut/HE\\_169+2016.aspx](https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Sivut/HE_169+2016.aspx)

<sup>34</sup>[http://www.migri.fi/our\\_services/customer\\_bulletins/bulletins\\_asylum/1/0/asylum\\_seeker\\_from\\_now\\_on\\_you\\_only\\_have\\_the\\_right\\_to\\_cost-free\\_counsel\\_for\\_weighty\\_reasons\\_during\\_your\\_asylum\\_interview\\_69591](http://www.migri.fi/our_services/customer_bulletins/bulletins_asylum/1/0/asylum_seeker_from_now_on_you_only_have_the_right_to_cost-free_counsel_for_weighty_reasons_during_your_asylum_interview_69591)

<sup>35</sup>[http://www.loc.gov/law/foreign-news/article/netherlands-ministerial-letter-issued-to-new-asylum\\_seekers/](http://www.loc.gov/law/foreign-news/article/netherlands-ministerial-letter-issued-to-new-asylum_seekers/)

<sup>36</sup><https://www.regjeringen.no/en/topics/immigration/asylum-regulations-in-norway/insight/norway-makes-it-harder-to-send-cash-back-home/id2465829/>

<sup>37</sup><http://www.migrationsverket.se/English/About-the-Migration-Agency/New-laws-in-2016.html>

<sup>38</sup>[https://www.bundesregierung.de/Content/EN/Artikel/2016/02\\_en/2016-02-04-asylpaket2\\_en.html](https://www.bundesregierung.de/Content/EN/Artikel/2016/02_en/2016-02-04-asylpaket2_en.html)

- i. **Faster procedures for asylum seekers with a very low probability of being granted asylum:** In March 2016, *Germany* passed a law allows faster procedures (one week) for asylum seekers who do not communicate their identity and for those who are from ‘safe countries’.<sup>39</sup>

While making entry more difficult, many European countries have simultaneously introduced new integration policies that aim to speed up the integration process of those who will stay. These integration measures include:

- a. **Integration contracts/plans.** In *Netherlands*, those granted asylum are expected to sign a contract where they pledge to achieve certain integration goals (e.g. proficiency levels in the host country’s language) within a certain time frame.<sup>40</sup> Some countries fast-track the award of more permanent residence permits conditional on achieving these goals.

In *Finland*, all recently arrived unemployed immigrants have to prepare an integration plan since 1999. These plans lay out a sequence of training and other active labor market measures. The immigrant is expected to participate and non-compliance is sanctioned by a partial withdrawal of unemployment benefits. We discuss these integration plans and their impacts in detail in Section 4.

- b. **Integration training:** *Germany* obliges accepted refugees and asylum seekers with a high probability of staying to participate in integration classes.<sup>41</sup> Some asylum seekers and permit holders are also offered an improved access to educational grants until 2018. *Austria* passed an ‘integration package’ which, among other things, aims to increase the supply of language classes and broaden the audience for them.<sup>42</sup> The *Netherlands* announced an expansion of the language program and has created programs to assess asylum seekers’ professional skills to help with their economic integration.<sup>43</sup> *Sweden* has increased the availability of vocational introduction jobs and work experience placements for asylum seekers and expanded the range of services in household work that allow for tax deductions (see Swedish Government 2015).

In *Finland*, the government published an action plan on May 2016 on the overhaul of integration services.<sup>44</sup> The plan includes measures to streamline the start of integration services; to improve recognition of education obtained abroad; to integrate language studies into other studies and so forth. In addition, a new type of public-private initiative was launched.<sup>45</sup> This program combines a short language training with a quick pathway to employment and further on-the-job language training. Another novelty of the new program is that it is funded by private capital and the investors are compensated based on

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<sup>39</sup> [https://www.bundesregierung.de/Content/EN/Artikel/2016/02\\_en/2016-02-04-asylpaket2\\_en.html](https://www.bundesregierung.de/Content/EN/Artikel/2016/02_en/2016-02-04-asylpaket2_en.html)

<sup>40</sup> A ‘participation statement’ has to be signed by all refugees: <https://www.government.nl/topics/new-in-the-netherlands/news/2015/11/27/government-staying-means-participating>

<sup>41</sup> <https://www.bundesregierung.de/Content/DE/Pressemitteilungen/BPA/2016/05/2016-05-25-meseberger-erklaerung.html?nn=694676>

<sup>42</sup> <http://www.integrationsfonds.at/monitor/detail/article/ministerrat-beschliesst-neues-integrationspaket-1/>

<sup>43</sup> <https://www.government.nl/topics/new-in-the-netherlands/news/2015/11/27/government-staying-means-participating>

<sup>44</sup> dlvr.it/LCph5k

<sup>45</sup> <https://t.co/ZaOySX8xGG>

the unemployment benefits received and taxes paid by the participants (in comparison to a control group participating in the business-as-usual integration programs). In addition, the effectiveness of the program is evaluated using an RCT, where the Ministry of Employment and Economy offers an opportunity to participate in the new program to randomly selected refugees.

While many of these asylum and integration policies have been frequent subjects of heated debates, credible empirical evidence about their effectiveness is surprisingly scant. This lack of evidence is not only wasteful for the enacting country, but prohibits policy learning across countries. The policies for which impact evaluations based on randomized control trials or well-designed observational studies are discussed in detail in Section 4.

### 3 How will refugees affect the host countries?

This section reviews the economics and political science literature on how past immigration flows have affected receiving countries. We discuss empirical work on the impact of immigration on the labor market (native wages and employment) and the long-term fiscal impacts. The section ends with a discussion on political and electoral consequences of immigration in general and incoming asylum seekers in particular, with a focus on support for anti-immigrant parties.

#### 3.1 Impact on native wages and employment

A simple economic textbook model provides a useful framework for thinking about the labor market consequences of immigration (see e.g. Borjas 2015 for discussion). In these models, immigration affects native wages only if the skill-mix of immigrants differs from that of the natives. If the distribution of skills is identical among immigrants and natives, immigration flows should increase the size of the economy, but have no impact on long-run native wages or employment. Sudden and large immigration does affect the capital-labor ratio and temporarily lowers wages, but over time capital would adjust and wages would revert back to their pre-immigration level. However, if the skill-mix of immigrants and natives differs, some natives will win and others will lose. More precisely, those who have *complementary* skills in comparison to immigrants will become more productive and can thus demand higher wages. Symmetrically, natives who are *substitutes* to immigrants in terms of their skills will become less productive. Thus, a key empirical question concerns the extent to which immigrants and natives are substitutes vs. complements in the labor market.

A large empirical literature has examined the impact of immigration on natives' wages and employment by comparing natives working in labor markets differentially exposed to immigration flows. The key challenge of this literature is that immigrants are not randomly allocated into labor markets.<sup>46</sup> Thus natives working in labor markets with many immigrants are likely to differ from natives working in labor market with few immigrants also in ways that have nothing to do with immigration.

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<sup>46</sup> When labor markets are defined as geographical units, the resulting estimates are likely to be biased upwards, because immigrants tend to move to booming areas. On the other hand, when labor markets are defined by occupations, estimates are likely to be downward biased, because immigrants tend to work in low-wage jobs.

This identification challenge has led part of the research to focus on quasi-experimental research designs where some labor markets experience immigration flows for reasons that are plausibly exogenous to the (unobserved) characteristics of these labor markets. Most famously, Card (1990) examined the impacts of the Mariel Boatlift – a temporary lift of emigration restrictions in Cuba – that caused Miami’s labor force to increase by seven percent over the summer of 1980. Despite the size of this immigration flow, wages and unemployment rates of less-skilled workers in Miami developed similarly as wages and unemployment rates of less-skilled workers in comparison cities that did not experience significant immigration flows.<sup>47</sup>

For a Finnish policy maker, an important limitation of results such as those discussed above is that Miami’s labor markets in 1980 differ from the contemporary Finnish labor markets in many ways. In a recent paper, Foged and Peri (2015) examine arguably more comparable situation. Their study exploits a research design created by a Danish refugee dispersal policy, which assigned arriving refugees quasi-randomly to places across Denmark.<sup>48</sup> Their results suggest that the refugees increased the likelihood of less educated native workers to change occupation (in the direction of less manual occupations) and had no or positive changes in their employment and wages.

Given that a large number of high-quality reviews on this topic already exists, we do not attempt to provide another one here, but rather refer interested readers to Borjas (1999), Hanson (2009), Blau et al. (2016) and Dustmann, Schönberg and Stuhler (2016). Our own reading of this literature is that the negative impact of immigration on native wages and employment appears to be surprisingly small or even inexistent even in situations where the immigration flows are large. Furthermore, the number of refugees in Finland remains relatively low in comparison to the size of the labor market and their employment rate has been low. Thus we conclude that it is unlikely that the current refugee flows would have much of an effect on the employment and wages of natives in Finland.

### **3.2 Impact on public finances**

The most important direct economic effect of receiving refugees is likely to work through public finances. Refugees tend to have lower employment rates than other immigrant groups or natives throughout Europe (EU/OECD 2016). This is true also in Finland. Sarvimäki (forthcoming) finds that immigrants born in Afghanistan, Iraq and Somalia earned substantially less and received more social benefits than other immigrants groups or natives. The gaps decrease over time, but remain large. Ten years after arriving to Finland, average earnings of immigrant men from these countries were only 22–38 percent of the average earnings of native men of the same age. The relative earnings of women were even smaller. Furthermore, immigrant households from these countries of origin received roughly twice as much equivalence-scaled social benefits than native households.

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<sup>47</sup> The impact of the Mariel Boatlift remains an active, and somewhat controversial, research topic. See Borjas (2016) and Peri and Yasenov (2015) for recent contributions.

<sup>48</sup> The same dispersal policy is also exploited in a study by Dustmann, Vasiljeva, and Damm (2016) which is discussed in more detail further below.

These differences are reflected in Salminen's (2015) estimates on the taxes paid, income transfers received and public services used by 20- to 62-year-old immigrants living in Finland in 1995–2011. His results suggest that an average working age immigrant from Somalia or Iraq constituted roughly €10,000 annual average net cost to the public sector during this period.<sup>49</sup> In comparison, the corresponding net cost for an average working age immigrant was 520€, while working age natives created an average €3,500 surplus for the public sector.

Taken at face value, these estimates suggest that an inflow of 10,000 refugees from countries like Iraq or Somalia would lead to an annual €100m cost to the public sector corresponding to 0.08% of the current total spending by the Finnish public sector. While such back-of-the-envelope calculations clearly contain information, it is unclear how well they measure the long-term fiscal impacts of immigration. The net cost or surplus that an individual creates for the public sector varies dramatically over the lifecycle. Everyone is a net burden during childhood and adolescence. Furthermore, most people create large net costs to the public sector during their last years of life. In order to truly capture the fiscal impacts of immigration, researchers would need to take these dynamics into account and measure the fiscal impacts as a discounted sum of all future taxes, transfers and costs due to public services.

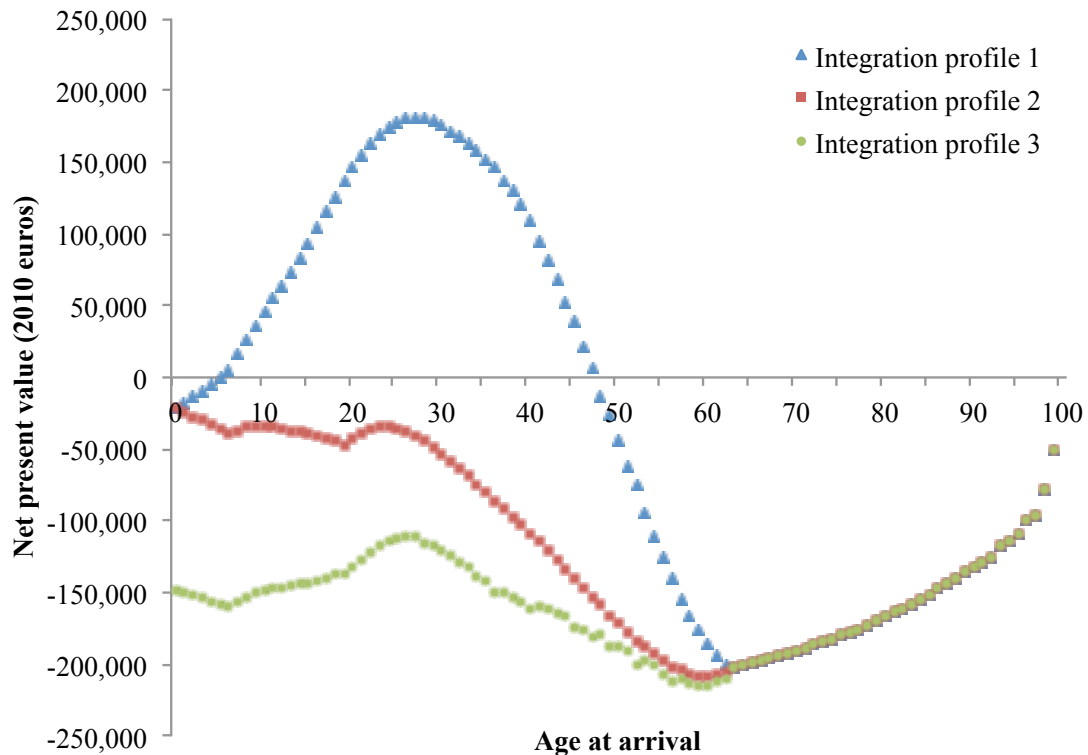
The challenge in incorporating lifecycle dynamics into the estimates on the fiscal impact of immigration is that much of the costs and benefits will take place in the future. Thus researchers have to make strong assumptions about the future labor market performance of immigrants, the cost of providing public services, the structure of the tax and benefit system, overall economic growth and so forth. Clearly, our ability to forecast these factors for the next few decades is very limited. Thus all estimates of the long-term fiscal effects of immigration are best understood as scenario exercises.

Figure 6 presents scenarios from Sarvimäki et al. (2014). Each point in the figure refers to the net present value of the fiscal impact of an additional immigrant arriving to Finland as a function of age at arrival (x-axis) and future labor market performance (marker style).<sup>50</sup> The top series correspond to a scenario, where the immigrant immediately starts to follow the average profile of natives. That is, in this scenario, a person arriving at age 30 is assigned the average taxes, transfers and cost of public services of current 30 year-old natives. In the next year, she is assigned the averages of current 31 year-old natives and so forth. Furthermore, her offspring is also assigned the age profiles corresponding to current natives. Fertility and mortality are assumed to follow the age profiles observed in current data and pensions are estimated within the model using the earnings profiles of current natives. The future costs and taxes are then discounted to net present value using 3% discount rate and assuming 1% annual earnings growth.

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<sup>49</sup> More precisely, Salminen (2015, p. 77) reports that immigrants born in Somalia caused an average €13,850 annual net burden to public finances. The corresponding number for Iraqis is slightly smaller (his figure 46). However, these estimates include €3,100 per person for costs due to collectively consumed public services such as roads and national defense. This approach implicitly assumes that the cost of these services increases linearly with population. We consider this an unrealistic assumption and thus remove this part from Salminen's (2015) estimates, see [http://vatt.fi/artikkeli/-/asset\\_publisher/maahanmuuton-kustannuksista](http://vatt.fi/artikkeli/-/asset_publisher/maahanmuuton-kustannuksista) for discussion. This corresponds to assuming that all collective consumed public services are pure public goods, which is also unlikely to be precisely right. However, we argue that given the number of refugees living in Finland, it is unlikely that they have an important impact on the aggregate cost of these public services.

<sup>50</sup> See Sarvimäki et al. (2014) and [www.vatt.fi/maahanmuutto](http://www.vatt.fi/maahanmuutto) for details.



**Figure 6:** Scenarios of the long-term fiscal impact of immigration from Sarvimäki et al. (2014). See Section 3.2 for discussion.

The top scenarios highlight the importance of age at arrival in a situation where immigrants integrate immediately into the labor markets. Those arriving after age 50, and those arriving before age six constitute a net burden to the taxpayer. This also means that newborn natives, i.e. those “arriving” at age zero, have a negative net present value in these scenarios. In contrast, immigrants arriving as young adults spend a long period working and paying taxes, but the expenses due to their education and health care during childhood is paid somewhere else. Thus they make a large positive contribution to public finances *if* they integrate fast into the Finnish labor markets.

Thus far, however, immigrants – and refugees in particular – have experienced difficulties in finding stable employment in Finland (see above). The bottom scenarios illustrate this fact. Immigrants and their offspring are now assigned the observed age profile of immigrants in 1995–2012, who arrived to Finland during the 1990s. The net present value on public finances is now negative regardless of the age at arrival and varies between €110,00 and €150,000.

The difference the top and bottom scenarios highlight the importance of labor market integration in generating the fiscal impacts of immigration. Among those arriving to Finland between ages 20 and 40, the difference between the two scenarios is almost €300,000 euros in net present value. One take-away of this calculation is thus that if one could design integration training that would move immigrants from the bottom to the top scenario, such program would be cost-efficient even if their costs would be close to €300,000. In comparison, the average investment in training for immigrants, who participate in integration programs has been around €15,000 (Sarvimäki and Hämäläinen, 2016). Of course, designing integration programs that actually move



immigrants from the bottom to the top scenarios may not be feasible. Nevertheless, a comparison of these alternative scenarios illustrates that effective integration programs can have substantial fiscal impacts.

The third set of scenarios, presented in the middle of Figure 6, correspond to an integration profile, where immigrants follow the profiles of the 1990s immigrants, but their children follow the profiles of current natives. The difference between these scenarios and bottom scenarios – roughly €75,000 for immigrants arriving in their mid-20s – illustrate the importance of the integration of the children of immigrants to the host country's labor markets.

We stress that none of the scenarios presented in Figure 6 should be interpreted as “price-tags” of immigration. Clearly, the tax and benefit systems as well as the way public services are provided will change in the future. Other assumptions embedded in these scenarios, such as a steady 1% annual earnings growth, are also unlikely to be accurate predictions of the future. However, scenarios such as those presented in Figure 6 can help to clarify which factors matter the most and thus assist policy makers to focus on these factors. In particular, Figure 6 illustrates that investments in integration policies can be cost-efficient purely from the public finances viewpoint.

### **3.3 Politics**

There are two main theories as to how individual voters respond to the presence of a ‘foreign’ group of people. On the one hand, the ‘contact hypothesis theory’ (Allport, 1954) suggests that interaction between natives and immigrants (majority and minority group) can reduce negative attitudes toward the minority group and – under some circumstances – tackle xenophobic fears. On the other hand, ‘group threat theory’ (see, e.g., Blumer, 1998; Quillian, 1995) suggests that it is actually the presence of immigrants that causes and exacerbates such animus.

Empirically, there are relatively few studies that can credibly document a direct influence of the immigration of asylum seekers on voters' attitudes and behavior. Many empirical studies aimed at gauging the impact of immigrants on their host societies suffer from one particular problem: immigrants typically make residential choices based on private information about their destinations, with local xenophobic attitudes as a potential key factor. Since these are also directly correlated with support for right-wing parties, self-selection poses a serious challenge to causal inferences about the effect of immigration (see, Dustmann and Preston 2001). In other words, it is inherently difficult to distinguish between co-occurrence of immigrants and local attitudes towards immigration among natives and the isolated effect of an increase in immigration on native citizens' attitudes and political behavior. Since we believe that in the present context, the endogeneity issues are severe and correlational studies of limited use for evidence-based policy making, this section focuses on studies that employ causal research designs that can credibly claim to identify causal effects.

Another challenge has to do with the fact that at least in current Europe, citizens experience immigration through different channels. Immigration, and newly arriving asylum seekers especially, are one of the most salient topics in the media. Almost on a daily basis, newspapers report on asylum-related issues. At the same time, experiences with immigrants can also take place on the micro-level. Citizens who live

in a community that hosts asylum seekers might see and/or meet asylum seekers on a daily basis. As Hopkins' (2010) study on anti-immigrant attitudes in the U.S. shows, these channels are not independent from each other. He presents evidence that "at times when rhetoric related to immigrants is highly salient nationally, those witnessing influxes of immigrants locally will find it easier to draw political conclusions from their experiences" (Hopkins, 2010, 44). This finding does not only point to several contextual factors that could potentially moderate the influence of immigration on political outcomes (via its impact on voters' attitudes) – something that will be discussed below – but also explains our focus on studies exploring regional differences in right-wing, anti-immigrant party support within states, rather than between states.

Empirical studies that are able to tackle these inferential challenges do not provide a uniform answer as to what the direct effect of immigration on political outcomes is. Whereas the studies taking a more long-term view and exploring the effect of immigration more broadly on electoral outcomes find a positive effect of immigration on right-wing, anti-immigrant party support pretty much across the board, the few papers focusing on the short-term effect of newly arrived asylum seekers in a community on political outcomes come to mixed conclusions. The results spread from a significant negative effect of accommodating asylum seekers on right-wing party support (Steinmayr 2016), to a strong positive effect of experiencing asylum seeker arrivals on extreme-right party support (Dinas, Matakos, Xefteris, and Hangartner, 2016). The following part summarizes this range of studies.

The recent study by Steinmayr (2016) is to our knowledge the first one to find an overall negative effect of accommodating asylum seekers on far-right party support: Upper Austrian municipalities that accommodate asylum seekers display a 4.4 percentage point smaller increase in the 2015 state elections vote share for the anti-immigrant FPÖ than municipalities that did not host refugees. The relatively equal allocation of asylum seekers to municipalities might play an important role, because, as Steinmayr points out, the observed effect is driven mainly by municipalities that held a lower than average share of asylum seekers. Furthermore, he argues, qualitative interviews imply that "anxiety in the population generally decreased after refugees arrived" (Steinmayr, 2016, 4).

Savolainen (2016) examines this question in the Finnish context by looking at electoral effects of opening asylum centers in Finnish municipalities in 1990-2011. She neither finds evidence for an impact on anti-immigration nor pro-immigration parties' vote share. However, a limitation of this study is that relatively few asylum centers were established during the study period and thus her study lacks statistical power.

Dinas et al.'s (2016) paper on how inhabitants on Greek islands close to Turkey respond electorally in timely national elections in 2015, however, shows that the inflow of asylum seekers, who do not stay but continue onwards with their journeys, leads to an increase of 2 percentage points (more than 40% at the mean) in the vote share of *Golden Dawn*, currently the most extreme right-wing and anti-immigrant party holding office in Europe.

Another study that looks at the immediate, micro effect of being exposed to members of an outgroup is Enos' (2014) commuter train experiment in Boston. Having Hispanics speak Spanish while waiting for commuter trains in an environment with very few Spanish speaking people led commuters to express more exclusionary political attitudes three days into the treatment. This effect, however, deteriorates with time: commuters randomly assigned to be surveyed not three, but ten days into the treatment exposed slightly less exclusionary political views than their counterparts surveyed before.

The literature dealing with the impact of immigration on more extreme forms of political behavior, such as political violence, does not provide a uniform answer, either. Dancygier (2010) investigates the impact of immigration on violent attacks and documents a positive relationship in Greater London. Braun and Koopmans (2010) find similar effects in Germany, as do Krueger and Pischke (1997) in the German Democratic Republic (GDR), but not in Western Germany. Accordingly, Krueger and Pischke (1997) note, too, that local political processes – how local conflicts are handled – play a large role: Immigration and violent outbursts are positively correlated, if local political processes facilitate mobilization. A qualitative study by Karapin (2002) also suggests that whether immigration by ethnic minorities led to violent, anti-immigrant riots in 1990s Germany depended on local political processes, such as, among others, facilitation of non-violent political participation. Yet, Falk, Kuhn and Zweimüller (2011) find very little, or no impact of the size of the immigrant community on political violence, respectively.

Taken together, these studies indicate that the (short-term) effect of the presence of newly arrived asylum seekers on electoral outcomes and support for far-right parties is not only theoretically, but also empirically unclear. The most natural interpretation given the different contexts under study is that the effects depend strongly on moderating factors, such as the facilitation of inter-group contact (cf. Steinmayr, 2016), pre-existing political attitudes (Dustmann, Vasiljeva, and Damm, 2016) and the perceived fairness of allocation of asylum seekers. Yet, there is a lack of research as to which moderating factors are most crucial when it comes to political consequences of refugee immigration. To gauge which moderating factors are the most relevant, however, we briefly consider a larger set of studies investigating the effect of immigration (in different forms) on political outcomes in the following.

A number of recent studies investigate the effect of the size of different immigrant – not necessarily asylum-seeking – populations on political outcomes, usually taking a more long-term perspective. In similar vein as above studies, most research focuses on electoral outcomes, with very limited attention to other outcomes such as native citizens' preferences for redistribution or trust in political institutions. McLaren (2012, 2015) is one of the few exceptions, however. Her research focuses on the impact of anti-immigrant attitudes on political trust and argues that some voters feel that immigration threatens a sense of national identity that lies at the heart of the liberal state and/or want to hold the state accountable for 'failing' to control immigration adequately. Accordingly, immigration not only fuels anti-immigrant attitudes,<sup>51</sup> but might also lead to a decrease in political trust: "politicians and institutions are likely to be blamed for failing to control immigration adequately"

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<sup>51</sup> Like, for example, in the UK, where immigration was not dominating elections because both major parties did not found their campaigns on it.

(2012, 171). Loosely connected to this idea of immigration as a threat to community are studies related to the effect of ethnic diversity on social trust (Putnam, 2007) and attitudes regarding welfare state spending (Dahlberg, Edmark, and Lundqvist, 2012). Both of these papers find a negative effect of ethnic diversity on mentioned outcomes. Dahlberg, Edmark, and Lundqvist (2012) investigate the effect of the arrival of refugees in assigned Swedish municipalities on voters' responses to a survey on welfare state spending and find evidence for the so-called 'in-group bias': Individuals display lower preferences for redistribution if the share of refugees placed in their municipality is larger.<sup>52</sup>

There is a larger set of papers dealing with the effect of immigration on electoral outcomes. These studies unanimously find a positive effect of immigration on political outcomes that benefit anti-immigration parties. Barone, D'Ignazio, de Blasio, and Naticchioni (2016), Otto and Steinhardt (2014), Mendez and Cutillas (2014), Halla, Wagner and Zweimüller (2014), and Brunner and Kuhn (2014) all indicate that a larger share of immigrants leads to an increase in support for anti-immigrant parties (in Italian municipalities, Hamburg, Spanish provinces, Austrian and Swiss municipalities, respectively). So do Harmon (2014) and Dustmann, Vasiljeva, and Damm (2016), both investigating the effect of immigration (all foreigners and refugees, respectively) on support for right-wing parties in Denmark. Using the fact that non-EU foreigners can very rarely purchase real estate in Denmark and therefore tend to settle in areas where rental housing is available, Harmon (2014) shows that increases in immigration-driven ethnic diversity have prompted right-wing ideological shifts in Danish local and national elections between 1981 and 2001. Whereas the vote share of traditional left-wing parties has experienced a decline with higher levels of ethnic diversity, anti-immigration nationalist parties have experienced a positive effect on their election outcomes. Note, however, that ethnic diversity is defined as "percentage of people that are non-Danish" (Harmon, 2014, 11). Dustmann, Vasiljeva, and Damm (2016) focus on refugees and find that not only the right-wing vote share, but also center-right party vote shares increase with larger shares of refugees being allocated: An increase in the municipality's refugee share by one percentage point leads to a 1.2 percentage point increase in the anti-immigration party's vote share in parliamentary elections, and also the center-right party benefits. Furthermore, they document that i) anti-immigrant parties are more likely to run in municipal elections when refugee shares are higher and that ii) this relationship does not hold in big urban areas.<sup>53</sup> According to Halla, Wagner and Zweimüller (2014) low- and medium-, but not high-skilled immigrants drive the positive effect of immigration on support for the far-right FPÖ in Austria. Both Halla, Wagner and Zweimüller (2014) and Mendez and Cutillas (2014) in Spain (also Barone et al. (2016) and Otto and Steinhardt (2014)) apply an instrumental variable approach, using previous immigration patterns as an instrument for later immigration (introduced by Altonji and Card (1991)).

In sum, there is a variety of studies employing credible research designs that suggest that immigration leads to political shifts: More immigration seems to lead to increases in votes for anti-immigration, and typically right-wing, parties, more political

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<sup>52</sup> It has to be noted, that questions were raised about the validity of Dahlberg, Edmark, and Lundqvist's (2012) identification strategy and the representativeness of their sample (see Nekby and Pettersson-Lidbom (2016) and Dahlberg, Edmark, and Lundqvist's (2016) reply). According to Nekby and Pettersson-Lidbom (2016), correcting for any of these issues turns the relationship between immigration and preferences over spending non-significant.

<sup>53</sup> Barone et al. (2016) find the same with regard to cities in Italy.

violence directed at immigrants, and potentially lower levels of political trust and preferences for redistribution. Accordingly, this research sheds light on potentially very serious political implications of receiving asylum seekers at larger numbers. Rises in right-wing vote share, decreases in political trust and the like have the potential to affect the long-term development of a society and undermine the credibility of its political system. These implications could prove to be much more serious than the short-term negative economic and fiscal consequences that an increase in the number of arriving asylum seekers has. Yet, at the same time, it is crucial to note that these studies also imply that the effect of immigration on political outcomes is not deterministic, because the results seem to be highly dependent on context. This suggests that contextual factors are powerful moderators. However, empirically, it remains relatively unclear under which conditions voters respond more strongly to immigration with regard to political outcomes. While we know quite a bit about what group of immigrants cause larger effects (see above) – and some of these findings are helpful when thinking about how to organize the accommodation of asylum seekers to induce as little opposition as possible – we have relatively little concrete empirical evidence which moderating factors are most important. Let us, however, consider the different contexts of the studies introduced above, and elaborate on certain factors that seem important:

- a. Information campaigns and narratives prior to the arrival of asylum seekers: Hopkins' (2010) study on attitudinal changes of Americans in response to immigration highlights the importance of the macro-level narrative on immigration and how that might influence and structure citizens' perception of face-to-face encounters with refugees in their community. Qualitative evidence in Steinmayr's (2016) paper on changes in the voting behavior of Upper Austrians in response to accommodating asylum seekers in their community speaks to a similar point: The clear trend towards more support for right-wing, anti-immigrant parties was less extreme in municipalities that were assigned to host asylum seekers. In these municipalities, the arrival and integration of asylum seekers was accompanied, encouraged and facilitated by professionals and volunteers.
- b. Repeated interaction between natives and asylum seekers: In relation to the above point, it seems important that interaction with asylum seekers is meaningful (see also Allport, 1954) and happens repeatedly. Whereas the largest positive effect of arriving asylum seekers on anti-immigration party support was documented on Greek Islands close to Turkey (Dinas et al., 2016) where refugees predominantly just passed through on their way to other European countries, Steinmayr (2016) finds that the presence of asylum seekers reduced the increase in anti-immigrant party vote share in a context where citizens understand that this will be a more long-term situation and volunteers facilitate interaction. In addition, not only repeated interaction between asylum seekers and the local community, but also between the (local) government and the local community could prove important. Both Krueger and Pischke (1997) and Karapın (2002) indicate that local political participation seems an important moderator for political violence against immigrants.

- c. Large, liberal municipalities (big urban areas, cities) respond less to an increase in immigration: Right-wing, anti-immigrant parties usually do not receive their largest support from cities (see Dustmann, Vasiljeva, and Damm, 2016). In addition, both Barone et al. (2016) and Dustmann, Vasiljeva, and Damm (2016) show that in large urban areas, immigration does not increase right-wing party support in Italy and Denmark, respectively. This implies that citizens in urban areas do respond less to accommodating asylum seekers in terms of party support. Accordingly, it seems worth to take this strong treatment effect heterogeneity into consideration when deciding where to host (which groups) of asylum seekers.
- d. A ‘fair’ distribution across receiving communities: Steinmayr’s (2016) paper provides at least suggestive behavioral evidence that an equal distribution across communities could be important, since it is the Upper Austrian municipalities with fewer refugees (below average) that display lower increases in right-wing, anti-immigrant voting. Furthermore, as discussed in detail above, Bansak, Hainmueller, and Hangartner’s (2016b) cross-country survey that examines Europeans’ attitudes towards different asylum seeker allocation mechanisms shows that most citizens’ in Europe prefer a proportional allocation of asylum seekers over the status quo of country of first entry.
- e. A swifter (economic) integration into the receiving country: People across Europe indicate stronger support for asylum seekers that have engaged in gainful employment in their country of origin and speak the local language of the host country, as Bansak, Hainmueller, and Hangartner (2016a) show. Thus, as extensively discussed in the next section, a faster integration process of asylum seekers and refugees into the new host society might also reduce natives’ opposition.

#### **4 Which integration policies work?**

While governments that are signatories to the 1951 Refugee Convention and its amendments have relatively limited control over the number and composition of asylum seekers submitting an asylum claim, they can design policies that facilitate the economic, political and social integration of immigrants – understood as the degree to which they have the knowledge and the capacity to achieve success in their host society (Kymlicka 1995, Dancygier and Laitin 2014).

This section discusses the impacts of past (broadly defined) asylum and integration policies and provides suggestions on how these policies could be made more efficient. We review results on integration programs implemented as part of active labor market policies, as well as the impacts of faster processing of asylum applications, granting immigrants permanent residency permits and citizenship, and the effects of language proficiency on the economic and social integration of new residents.

#### **4.1 Improving the match quality in active labor market policy measures**

Andersson Joonas and Nekby (2012) study a Swedish program, where newly arrived immigrants were provided extensive counseling and coaching on employment prospects. A trial of this intervention was conducted through Public Employment Service (PES) in 2006–2008. The caseworkers participating in intensive coaching were trained to work exclusively with newly arrived immigrants and would handle less than 20% of the caseload in comparison to regular caseworkers. The intervention aimed to facilitate the direct contacts with the employers and to improve the match quality between the immigrants and ALPM measures. The evaluation was conducted as a randomized controlled trial (RCT), where PES officers were asked to randomly assign newly arrived immigrants into treatment (intensive coaching) and control (regular introduction programs) groups.

The results suggest that intensive coaching increased the share of immigrants in regular employment by six percentage points two years after the start of the intervention. This corresponds to 43% increase in employment rate given that the employment rate of the control group was only 14 percent. The effect was sufficient to cover the cost of the program in 2–3 years. Furthermore, the overall effect appeared to be due to men being responsive to the treatment, while no impact was found for women.

An unfortunate feature of this trial, however, is that the treatment and control groups were not fully balanced on pre-assignment characteristics. A possible reason for the unbalance is that the PES officers conducted the randomization and may not have followed the randomization protocol. In particular, they may have attempted to select better participants into the program. If this were the case, the estimated impact of the intervention would overstate the true impact. This hypothesis is supported by the fact that controlling for observed characteristics reduces the estimated employment impact from seven to six percentage points. While this reduction is not particularly dramatic, it suggests that the estimates should be interpreted as upper bounds for the true impact. Furthermore, the results highlight the importance to avoid situations where parties who might have a stake in the results are responsible for the randomization process.

Åslund and Johanson (2011) examine an earlier Swedish intervention called Special Introduction Programs (SIN). It was based on methods originally used for helping disabled workers to find employment and focused on immigrants and refugees who were considered to be at risk of becoming long-term unemployed. PES offices executed the intervention and the participating offices were given additional funding to hire caseworkers. These caseworkers had only 10% of the caseload of the regular caseworkers, which allowed them to work intensively with each of their clients. The intervention consisted of caseworkers finding suitable jobs for their clients and running introducing session in these jobs together with the employer, colleagues, and union representatives. This was followed by an internship period lasting up to six months after which the caseworker organized follow-up session with the aim of turning the internship into a regular job.

The program was piloted in 20 Swedish municipalities in 2003. Åslund and Johanson (2011) evaluate the impacts of SIN using difference-in-differences strategy, where they compare treatment municipalities with nonparticipating locations in the same

local labor market. They find that the intervention increased transitions from unemployment to work experience schemes and improved future employment probabilities for those who entered these schemes.

In comparison to these rather intensive Swedish programs, the “integration plans” introduced in Finland in 1999 were very light and cheap. These plans are prepared in a joint meeting with a caseworker, the immigrant, and an interpreter with the aim to find a sequence of training and other measures that would be the most suitable for each immigrant. In principle, similar discussions were held with all unemployed job-seekers also in the old system. However, the integration plans aimed to improve the communication between caseworkers and immigrants. For example, the new guidelines stated that the caseworker had to make sure that the immigrant fully understood the content of her or his integration plan and knew how to follow it. They may have also provided the caseworker more autonomy to better take into account the specific skills and circumstances of each immigrant.

Sarvimäki and Hämäläinen (2016) evaluate the impact of the integration plans using a research design created by a phase-in rule dictating that participation was mandatory only for unemployed immigrants who had entered the population register after May 1, 1997. This rule creates a regression-discontinuity design, where the likelihood of receiving an integration plan increases by 35 percentage points between those who had arrived on May 1, 1997 and those who arrived a day before. It turns out that those who had arrived on May 1, 1997 also earned roughly 7,000 euros more during the 2000s than those arriving just before the specified date. Together, the discontinuities suggest a local average treatment effect of a 21,000€ (or 47%) increase in cumulative earnings over the ten-year follow-up period. Using the same approach, Sarvimäki and Hämäläinen (2016) also find a 13% decrease in cumulative social benefits. These effects seem to be due to increasing language training and other training specifically designed for immigrants, while scaling down “traditional” active labor market training such as job-seeking courses. That is, there is no detectable impact on the amount of training.

The research discussed above share two themes. First, all examine interventions that focused on improving the match quality between immigrants and training programs. Second, all find much larger effects than what is typically documented in the literature on the impacts of active labor market policies on natives’ labor market integration (see Card, Kluve and Weber 2010 for a review). These observations suggest that immigrants may lack the type of skills that can be improved through training provided by the employment offices, but that they need help in navigating the system. Thus even the very small interventions such as Finland’s integration plans can have large effects. This also suggests that further policy experimentation on how to improve training and counseling could yield high returns to the public investment.

#### **4.2 The negative effects of lengthy asylum process**

The recent increase in the number of asylum applications has put significant pressure on the asylum applications processing system, leading to a considerable backlog of cases in many European countries (particularly Sweden and Germany). As a consequence, many asylum seekers had to face even lengthier asylum decision-making processes. Hainmueller, Hangartner and Lawrence (2016) show that lengthier



asylum decision procedures also affect the subsequent integration of refugees into the host society. In their study, they provide evidence as to how the length of time that refugees ‘wait in limbo’ for a decision on their asylum claim impacts on their subsequent economic integration. Exploiting exogenous variation in wait times and using registry panel data covering asylum seekers who had applied for asylum in Switzerland between 1994-2004, they find that one additional year of waiting reduces the subsequent employment rate by 4 to 5 percentage points, a 16% to 23% drop compared to the average rate. This deleterious effect is remarkably stable across different subgroups of refugees stratified by gender, origin, and age at arrival, a pattern consistent with previous cross-sectional and qualitative evidence (Stepick and Portes 1986; Waxman 2011; Bakker, Dagevos and Engbersen, 2014) that waiting in limbo dampens refugee employment through psychological discouragement, rather than a skill atrophy mechanism. In other words, whereas recent reductions in refugees’ labor market access waiting times point to the importance of early labor market access for economic integration,<sup>54</sup> this study highlights an additional factor that affects asylum seekers’ ability to integrate: the degree of and time period in uncertainty about the future. A partial equilibrium cost benefit analysis in Hainmueller, Hangartner and Lawrence (2016) suggests that even policy reforms that marginally reduce the waiting period for asylum seekers would help refugees to navigate the difficult transition from a life in legal limbo to a successful integration into the host community. Moreover, from a host country perspective, such reforms would reduce public expenditures for welfare benefits significantly due to the increase in employment and the resulting increase in tax contributions of employed refugees.

### **4.3 Permanent residency permits and citizenship as integration catalysts**

Another policy that has the potential to facilitate the integration of immigrants is to allow for faster access to permanent residency and citizenship. Faster access to a more permanent form of residence eliminates fears of deportation, and at the same time incentivizes immigrants to invest in a long-term future in their receiving country. However, that does not imply that residency permits and citizenship should necessarily be offered at a very early stage. In theory, lowering the threshold for residency permits and citizenship could also have the opposite effect: Rather than incentivizing integration, awarding residency permits and citizenship too early could destroy immigrants’ strive to integrate and learn the local language (Hainmueller, Hangartner, and Pietrantonio 2016). While causal evidence on the impact of permanent residency and citizenship is fairly scant, there are a few studies that generally show that giving immigrants permanent residency and citizenship has i) a positive effect on political and social and, to a lesser degree, economic integration and ii) that these ‘integration returns’ are larger if immigrants receive these statuses earlier in the residency period.

With regard to residency permits, Hainmueller, Hangartner, and Lawrence (2016) provide panel data evidence based on Swiss registry data (see above) that asylum seekers probability of finding a job increases by 10 percentage points (a 50% percent increase over the average) if they receive subsidiary protection in the first year after arrival. The boost associated with subsidiary protection, which arguably captures both the increase in refugees’ motivation of finding work and decrease in employer’s

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<sup>54</sup> See, for examples, Section 3 on economic integration policy responses in this report and <http://www.eurofound.europa.eu/observatories/eurwork/articles/industrial-relations/approaches-towards-the-labour-market-integration-of-refugees-in-the-eu>

uncertainty about the refugee being deported, fairly linearly decreases the longer the refugee has to wait for receiving protection status and is essentially zero after five years upon arrival.

In the domain of citizenship rights, there are several panel data studies that show a positive association between naturalization and labor market outcomes (see Bevelander and Veenman, 2008 and OECD, 2011 and the references therein). One common problem with these studies is that even when employing panel data, the coefficient for naturalization might not have a causal interpretation if an unobserved factor, such as the decision to stay in the host country for good, causes immigrants to simultaneously apply for citizenship and finding a (better) job.<sup>55</sup> However, Gathmann and Keller (2014) can exploit discontinuities in eligibility rules for immigration reforms in Germany that changed the residency requirements for naturalization. Based on an intention-to-treat analysis, they find few economic returns for men but significant, albeit substantively small, returns for women.

To circumnavigate the confounding issue associated with panel data, Hainmueller, Hangartner, and Pietrantuono (2015, 2016) exploit the quasi-random assignment of citizenship in Swiss municipalities that used referendums to decide on naturalization applications of immigrants. Comparing otherwise similar immigrants who narrowly won or narrowly lost their naturalization referendums, they find that receiving Swiss citizenship strongly improved long-term political and social integration. More specifically, they present evidence that barely naturalized—as compared to barely non-naturalized immigrants—have higher levels of political efficacy and knowledge, are more likely to read Swiss than exclusively foreign newspapers, are less likely to plan to return to their (or their parent’s) country of origin, and are less likely to feel discriminated against. Using an index of these outcomes, their study shows that naturalization increases both political and social integration by one standard deviation. They also find that the integration returns to naturalization are much larger for more marginalized immigrant groups<sup>56</sup> and somewhat larger when naturalization occurs earlier, rather than later in the residency period.

Taken together, these studies fail to causally identify substantive economic returns, but they support the policy paradigm arguing that naturalization is a catalyst for improving the political and social integration of immigrants rather than merely the crown on the completed integration process (Hainmueller, Hangartner, and Pietrantuono (2016)).

#### **4.4 The effect of proficiency of the host country’s language**

There is little doubt that proficiency in the host country language is crucial for a successful integration. Yet, again, from an empirical perspective, there are serious challenges involved with estimating the causal effect of language on immigrants’ integration. First of all, the correlation of language proficiency and labor market outcomes raises a well-founded fear of endogeneity.<sup>57</sup> At the same time, the general

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<sup>55</sup> Consistent with this confounding pattern, Engdahl (2014) finds that immigrants’ wages in Sweden actually increase before, not after their citizenship application is decided.

<sup>56</sup> From (former) Yugoslavia and Turkey.

<sup>57</sup> See, for instance, Chiswick and Miller (1995). There are a few studies that are trying to address the potential endogeneity with an IV strategy (Bleakley and Chin, 2004, 2010; Miranda and Zhu, 2013; van Ours and Veenman, 2006). The instruments that

focus on language *learning* (almost) throughout this literature entails critical challenges for the estimation of the importance of language on labor market outcomes. Most importantly: The fact that language learning ability is correlated with many other, often unobservable, characteristics of the immigrants that could also influence their job search and earnings is often noted, but difficult to overcome. Yet, even though many of the studies below might not be able to deliver causal estimates, they provide, at the very least, an upper bound on the benefits of language courses, as the following summary illustrates.

Labor market participation seems to increase with local language skills in various countries. Dustmann and Fabbri (2003) find that in the UK, English language acquisition (ELA) increases the chances for a male job-seeker to find gainful employment by 26 percent. For women, ELA does not increase the chances significantly. In addition, they also find a significant positive effect of English proficiency on earnings.<sup>58</sup> Grondin (2007) shows that the same positive relationship between English speaking ability and probability of employment also exists in Canada. And Aldashev, Gernandt and Thomsen (2009) find that in Germany, language proficiency does not only affect immigrants' labor market participation, chances of employment, and earnings, but also their occupational choice.

A positive effect of local language skills has not only been documented with regard to labor market participation, but also for earnings. In an early analysis, (Tainer, 1988) finds a statistically significant positive effect of English proficiency for foreign-born men in the U.S. The extent of the effect, however, varies across ethnicities: There is a larger effect for Hispanics and Asians than for European born men. Chiswick and Miller (1995) analyze the impact of English language fluency on earnings in Australia, Canada, the U.S. and Israel. In all countries, they find a significant, positive effect, varying between 5.3% higher earnings in Australia and 16.9% higher earnings in the U.S. The results for Israel (Chiswick and Repetto, 2000), the U.S. (Chiswick and Miller, 2002) and Canada (Chiswick and Miller, 2003) are also confirmed in later studies.

Bleakley and Chin (2004) use an IV strategy<sup>59</sup> to determine the effect of English language skills in the U.S. and show that there is a significant positive effect of language ability on earnings, arguably mainly driven by years of schooling. Dustmann (1994) confirms this positive effect also for German language ability in former-West Germany.<sup>60</sup> So do Ispohrding, Otten and Sinning (2014) who find a strong positive effect of language ability on wages, arguably mainly mediated through occupational choice. Similar results also exist for ELA in the UK. Shields and Wheatley Price (2002) and Miranda and Zhu (2013), both using an IV strategy, estimate a large positive effect of ELA on wages.<sup>61</sup> Finally, Budría and Swedberg (2015) find that in Spain as well, there is a general positive effect of language abilities on earnings, but it

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these studies employ depends on the language spoken in the immigrant's country of origin and often also on the age-at-arrival, since both factors influence someone's language learning ability.

<sup>58</sup> Note that according to Miranda and Zhu (2013), however, these results were not significant anymore when they controlled for potential endogeneity (which could also be due to the small sample size as they note).

<sup>59</sup> Age of child's arrival in the US

<sup>60</sup> See, also, Dustmann and Van Soest (2002)

<sup>61</sup> Shields and Wheatley Price (2002) estimate a positive effect of about 16.5% on immigrants' mean hourly occupational wages and Miranda and Zhu (2013) estimate that English deficiency leads to 23% lower wages in the UK.

is more pronounced for high-skilled workers. They earn about 50% more if they speak Spanish.

Using administrative data from Switzerland, Hangartner and Schmid (2016) are able to address above-mentioned concerns about endogeneity with a difference-in-difference design. They exploit the quasi-random placement of refugees to Swiss states (cantons) and the existence of a sharp language border dividing German and French-speaking areas and examine the size of the economic gains from proficiency of the host country's language. Compared to otherwise similar English-speaking African asylum seekers, French-speaking asylum seekers have an 80% higher probability of finding a job in the first year after arrival due their French proficiency. This effect is persistent for at least the first five years upon arrival.

Despite some shortcomings, these studies leave little doubt about the importance of proficiency in the host country's language of immigrant integration. They suggest that for arriving asylum seekers' economic integration and the receiving country's public expenditures (see, for example, the section on the effect of the length of asylum decision procedures), providing extensive language training to asylum seekers (and future residents) would prove highly beneficial.

## **5 Conclusions**

Since the summer of 2015, stories about asylum seekers have filled the media and captured public imagination everywhere in Europe and beyond. The reactions have ranged from some citizens opening their homes to asylum seekers to others throwing Molotov cocktails into reception centers. In addition to being challenging for citizens and asylum seekers, the situation has also been difficult for policy makers: first in simply dealing with the logistics of receiving so many more asylum seekers, and then in deciding whether and how to improve their asylum and integration policies.

Engulfed by these heated debates, evidence-based asylum and integration policy-making is not only hard, but also essential in ensuring that asylum-seekers, many of whom will become new European residents, have the opportunity to become full and productive members of the receiving society, to keep economic costs down and to minimize the potential of political fallout.

In this report, we have summarize and analyzed different literatures under the caveat that the impacts of immigration on economic and political outcomes are highly heterogeneous, making external validity claims and policy-learning across countries inherently difficult. Nevertheless, we believe that existing evidence is sufficient for drawing three conclusions.

First, asylum seekers are unlikely to have an important effect on the labor market. This conclusion is based on a large empirical literature that tends to find relatively modest impact of immigration on native wages and employment. Furthermore, the number of asylum seekers who are expected to stay is small in comparison to the size of the labor market and their employment rate is likely to be low.

Second, asylum seekers may affect the economies of the receiving countries through their impact on public finances and/or the broader political process. The short-term fiscal effect of accommodating asylum seekers is clearly negative, but assessing the long-term fiscal effect is difficult due to the plethora of hard to quantify factors involved. Inter alia, these factors crucially depend on the asylum and integration policies. The same holds true for political outcomes. Most well-identified observational studies suggest that an increase in the number of immigrants often leads to higher vote share for anti-immigrant parties. Yet, contrasting these findings with studies that come to a different conclusion yields insights into potential factors moderating the effect of immigration on natives' vote choice: providing timely information to locals, facilitating repeated interaction between natives and refugees, and ensuring that the allocation of asylum seekers is perceived as 'fair' and takes into account the heterogeneity in the responses of the local population.

Finally, the fiscal, and perhaps also the political, effects are largely determined by how well the refugees integrate into the labor markets and the broader society of the host countries. Integration policies can affect this process. Existing research suggests that at least three types of interventions facilitate labor market integration: i) creating/enlarging programs that assess asylum seekers' skills and help them navigate the labor market system, ii) shortening the duration of the asylum process to decrease the detrimental effect of waiting in 'legal limbo', and iii) focusing on facilitating asylum seekers' host country language skills. These policies are also likely to improve other dimensions of integration. In addition, earlier access to permanent residency and citizenship improves immigrants' political and social integration.

We stress that the while existing research allows us to offer the conclusions above, many important questions remain unanswered. For example, the fact that some integration policies have been shown to be efficient does not mean that other kind of integration policies would not work. We just don't yet have evidence of their effectiveness (or the lack thereof) based on plausible research design. Thus we hope to see much more policy experimentation – conducted in a way that allows for reliable impact evaluations – in the future.

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