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**Article**

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## THE IMPACT OF THE ECONOMIC CRISIS ON MIGRATION AND LABOUR MARKET OUTCOMES OF IMMIGRANTS IN OECD COUNTRIES<sup>1</sup>

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### Introduction

Not long ago, many OECD countries were looking to labour migration as one way to address labour shortages, and the expected declines in the working-age population as a result of ageing. High levels of migration were being recorded in the new migration countries of southern Europe and more widely in the European Economic Area following EU enlargement. In the year immediately prior to the crisis, a record-high level of almost 5 million migrants had entered OECD countries.

Although the labour market impact of the recent economic downturn differed significantly across countries, both in terms of intensity and of the type of workers most affected, labour demand fell in all countries. Many of the countries that were hardest-hit during the downturn had been among the main recipient countries of migration flows immediately prior to the crisis.

Against this background, this article looks at the impact of the crisis on migration flows and the labour market integration of immigrants in OECD countries. It begins by describing how migrants have fared in the labour market during the economic cri-

sis, followed by an analysis of the impact on labour migration trends and their link with recent policy changes. It concludes and draws some implications for the management of labour migration and for integration policy.

### How have migrants fared during the economic crisis ?

The financial crisis, which started at the end of 2007, rapidly led to a major recession and has resulted in severe labour market slack. Starting from a 28-year low of 5.8% in late 2007, the OECD unemployment rate rose to 8.8% in the fourth quarter of 2009, which translates into 18 million more unemployed persons (OECD, 2010). Although the crisis did not hit all labour markets evenly, the labour market was strongly affected in several countries, notably in Spain, Ireland and Greece – three countries which had seen large inflows of migrants immediately prior to the crisis. Recent evidence suggests that unemployment may have peaked at the end of 2009, but job creation remains weak in most OECD countries.

In 2008 and 2010, the unemployment rate of the foreign-born increased by 14 percentage points in Spain and by about nine percentage points in Ireland and Iceland (Figure 1). In the United States, the number of unemployed immigrants increased by over one million and the unemployment rate of immigrants more than doubled from a low 4.2% (second quarter of 2007) to a high 11.4% (first quarter 2010). Milder increases were recorded in EU countries as well as in Australia and Canada, although in all cases except in the United Kingdom, the immigrant unemployment rate has increased more rapidly than that of native-born inhabitants. On average in the EU-15, between the first three quarters of 2008 and the corresponding quarters in 2009, the unemployment rate of migrants increased by 3.4 percentage points, twice the increase recorded for native-born inhabitants.

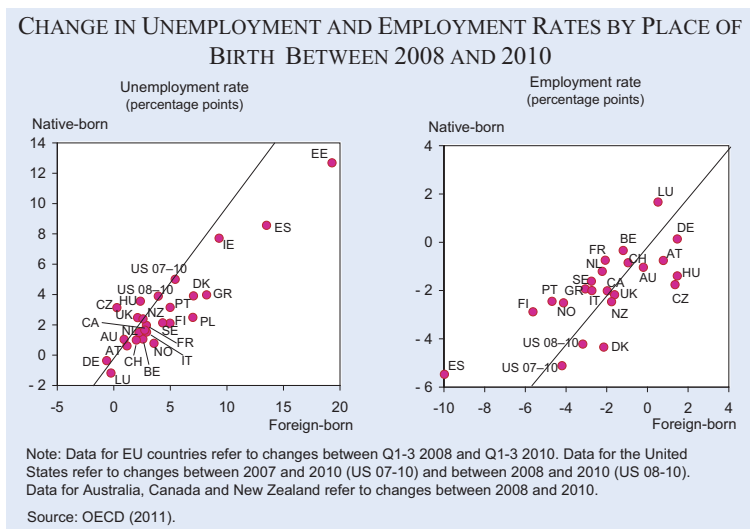
Overall trends in labour market outcomes of immigrants mask important differences between different migrant groups. In terms of gender, in previous crises the labour market impact tended to be similar for



<sup>1</sup> The views expressed in this paper are those of the authors and do not necessarily reflect those of the OECD or of the governments of its member countries.

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Figure 1



immigrants were observed in Spain (44%), Sweden (35%), Belgium (35%) and France (33%).

In Europe (2008-10) and the United States (2007-10), the most severe job losses were recorded in the construction sector, with declines in employment of 1.6 million and 2 million, respectively. Immigrants accounted for about a fourth of the decline in Europe and over a third in the United States. The financial sector was also hard hit. In the United States, more than 135,000

men and women. This has not been the case in the current crisis, as employment losses were disproportionately large for men.

Factors explaining this situation can be found in the distribution of employment among migrants by gender. Women are more concentrated in sectors related to social and household services which still experienced employment growth during the crisis in many countries, whereas men are overrepresented in the most deeply-affected sectors (construction, manufacturing, finance). In addition, in several OECD countries the labour market participation rate of migrant women increased during the crisis, probably to compensate for potential income losses on the part of their spouses.

Young migrants have been particularly exposed to the worsening of economic conditions. Except in countries with low initial levels of youth employment, such as Greece, Belgium and France, in all countries where the labour market has been seriously hit by the crisis. In Ireland, for example, the employment rate of young migrants aged 15-24 fell by 24 percentage points. On average in European OECD countries, in the third quarter of 2010, almost 24.5% of young migrants were unemployed, compared with 19.6% of the young native-born. Corresponding figures for Canada (19.4% vs. 14.2%), Australia (12.9% vs. 11.3%) and New Zealand (19.9% vs. 16.4%) show a similar picture. The situation is, however, different in the United States, where the unemployment rate of young migrants was 15.8%, compared with 18.8% for young native-born. As of the third quarter of 2010, the highest unemployment rates recorded for young

jobs were lost in this sector between 2007 and 2010 among immigrants. In total, about 330,000 jobs were lost in the motor-vehicle industry in Europe, including 58,000 among immigrants; while in the United States the transportation equipment manufacturing industry alone lost 386,000 jobs between 2008 and 2009, including 53,000 held by immigrants.<sup>2</sup>

The higher vulnerability of migrants during economic downturns is primarily due to the concentration of migrant workers in sectors with more volatile employment. All else being equal, the initial distribution of foreign-born employment explains about 60% of the drop in foreign-born employment in Spain, 75% in Ireland, 80% in Sweden, 50% in the Netherlands, but only 30% in France.

Another possible explanation is linked to the fact that immigrants have on average less secure contractual arrangements and are more often in temporary jobs, which are the first to be cut during an economic downturn. The difference in the risk of job loss between temporary and permanent workers is large, especially since employers often start to adjust their labour demand by not renewing temporary contracts during the initial phase of a recession. The opposite phenomenon can be identified during the initial phases of a recovery. In most OECD countries, immigrants are overrepresented in temporary jobs

<sup>2</sup> Not all industries have reduced their activity in the last three years and employment indeed increased in many sectors. This is especially the case in the social services. In the United States, foreign-born employment in education services increased by 5% (+63 thousand) between 2007 and 2010, whereas it increased by 8% (+80 thousand) in Europe in the past three years. In the health sector, foreign-born employment increased by 130 thousand in the United States (including +20 thousand in hospitals) and by more than 200 thousand in Europe (including +150 thousand in residential care activities).

(Table 1). This is notably the case in Belgium, the Czech Republic, Greece, Norway, Portugal, Spain and the United Kingdom, where the share of immigrants in temporary employment exceeded that of the native-born by at least 50% prior to the crisis. In Spain, almost 48% of all migrant workers in 2008 were on temporary contracts. Not surprisingly, migrant employment has adjusted very rapidly.

Migrants also tend to have lower seniority in the jobs they occupy, making them more prone to be laid-off. However, independent of seniority, migrant workers may also be subject to selective lay-offs when economic conditions are less favourable. Evidence of hiring discrimination on racial and ethnic grounds is supported by numerous studies applied to a wide range of OECD countries (OECD, 2008), but much less analysis has been carried out on selective lay-offs. Two specific Swedish studies, however, identify a significant and strong effect of place of birth on unemployment risk. Controlling for education, seniority and sector, Arai and Vilhelmsson (2004) show that during the early 1990s economic crisis, non-European immigrants faced an unemployment risk that was twice as large as that of natives. This was the case despite the fact that the Swedish

Security of Employment Act stipulates that the order of dismissals in case of layoffs should be based on seniority.

Immigrants may also be more disadvantaged in the hiring process during a crisis. For example, when there is an abundance of job applicants, (real or expected) mastery of the host-country language may be used more extensively as a screening criterion by employers.

### How has the economic crisis impacted migration flows?

#### *Reactions in migration policies and discretionary labour migration*

Prior to the economic crisis, several general migration policy trends could be observed across the OECD, favouring highly skilled and student migration and moving towards demand-driven migration systems.<sup>3</sup> Many OECD countries were also developing policies aimed at using labour migration to help meet the specific demands of the labour market, and these mechanisms, especially shortage lists, have been changed in reaction to the changing economic environment.

During the crisis, a number of OECD countries have made adjustments to their labour migration management policies. Depending on the main characteristics of labour migration programmes, the levers that policy makers can use to adjust inflows to the changing conditions in the labour market include: i) adjusting numerical limits; ii) strengthening the labour market test; iii) limiting possibilities to change status and to renew permits; iv) applying supplementary conditions to non-discretionary flows; and v) promoting return migration. While not all of these changes have been directly related to the economic crisis, many were explicitly developed to deal

<sup>3</sup> Demand driven<sup>4</sup> refers to migration that is conditional to an offer of employment. “Supply-driven” migration refers to migration independent of a specific job offer by an employer.

**Table 1**  
Share of different types of employment in total employment by place of birth (15-64 years old), 2008, percentage

	Temporary employment		Recent employment (tenure <12 months)	
	Native-born	Foreign-born	Native-born	Foreign-born
Austria	9.0	9.4	12.9	20.4
Belgium	7.6	13.5	11.0	17.2
Canada	12.4	10.8	-	-
Czech Republic	7.1	14.3	9.4	12.9
Germany	14.4	16.2	13.1	17.8
Denmark	8.2	10.3	22.3	28.6
Spain	25.7	47.7	15.4	34.1
Finland	15.3	19.7	17.6	28.4
France	14.1	15.7	11.7	14.1
United Kingdom	4.8	8.2	15.8	22.3
Greece	10.6	16.5	7.8	12.7
Hungary	7.7	9.1	12.2	12.8
Ireland	7.9	10.5	14.2	27.3
Italy	13.2	15.8	10.5	16.3
Luxembourg	7.1	5.5	7.8	9.7
Netherlands	19.9	25.2	9.0	11.7
Norway	8.8	13.2	17.7	22.2
Portugal	21.6	36.3	11.5	18.9
Sweden	15.5	21.2	16.2	19.4

Source OECD (2010)

with fewer employment opportunities available and to better ensure that international recruitment met labour demand.

Numerical limits have been cut, most markedly in Italy, which did not authorise any labour migration in 2009, after setting the maximum at 170,000 in 2007. Korea also cut its cap in 2009 and again in 2010, from 72,000 to 34,000 and then 24,000. Spain uses a cap for anonymous recruitment from abroad that was slashed from over 15,000 in 2008 to less than 200 in 2010.

The traditional settlement countries in the OECD set targets for permanent inflows which are not, or only indirectly, set in response to immediate labour market needs and specific requests by employers. These targets were only slightly adjusted during the downturn. Canada lowered its target for economic migrants by less than 2% for the FY2008/09, but raised it for 2010 by 8.3%. In Australia, the target for the permanent skilled migration programme was reduced from 133,500 to 108,100 in 2009, but rose to 113,850 in 2010 (and again in 2011 to 125,850).

The labour market test is a requirement that jobs be offered first to domestic workers (including resident migrants) before recruiting from abroad, and usually involves an advertising requirement for a minimum duration of time. As unemployment rises and the labour market slackens, it tends to be easier to find workers locally – and authorities may treat employer requests for recruitment from abroad more sceptically. In 2009, Canada imposed a stricter review of requests for low-skilled temporary workers. The Czech Republic and Poland also moved to examine requests more closely. The United Kingdom, Korea and Bulgaria doubled the length of time a job offer must be listed locally, which was also increased by Ireland.

In most countries where so-called “shortage lists” exempt certain occupations in shortage from labour market tests, sharp reductions in the lists were made. The United Kingdom repeatedly cut back its shortage occupation list, as did Spain. In October 2009, it eliminated a third of the occupations from the list, and these accounted for the bulk of employment previously on the list. Ireland also cut back the list for its “Green Card” for skilled permanent migrants, while Canada and the Czech Republic both eliminated their shortage list for temporary foreign worker requests.

The policy changes mentioned above have been linked to the worsening economic situation, but it is not clear how much they have affected labour migration flows, as the main brake on labour migration flows was the fall in labour demand in the first place.

This is evident in the number of applications for authorisation to hire a worker from abroad in a number of OECD countries, although the slack labour market did not begin to be felt in many countries until mid-2008 or even later (Figure 2). For 2009, most OECD countries showed clear indicators of falling demand, in terms of both the number of requests for foreign workers (in countries for which application numbers are available) and the number of foreign workers authorised.

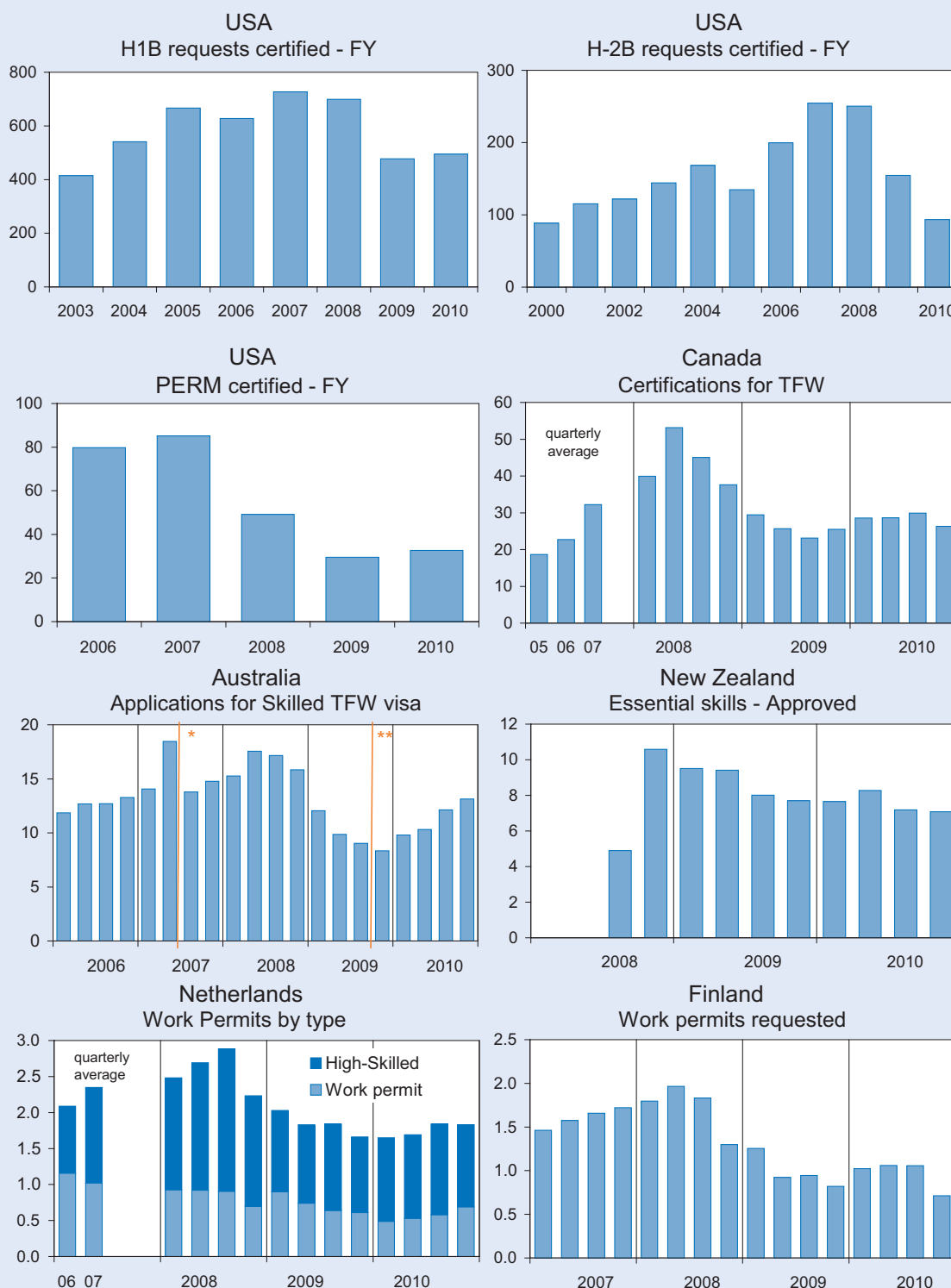
In the United States, two separate indicators show lower demand for foreign workers: the number of applications for authorisation (“certification”) and the time before the available visas are exhausted. Requests for certification for permanent visas (“Green Cards”) fell from 99,000 to 38,000 between 2007 and 2009, with little recovery in 2010. The number of positions certified under the H-1B programme for skilled workers fell 35%, from 727,000 to 477,000 from 2007 to 2009, without recovering in 2010. Requests for computer-related occupations, which represent the largest category, fell by 41%. The number of positions certified under the H-2B program, open to non-agricultural temporary workers, fell from 255,000 to 154,000 over the same period, and further to 94,000 in 2010. A large part of the decline was in landscaping, tree planting, hospitality and construction occupations.

In Canada, quarterly authorisations of temporary foreign workers following a labour market opinion peaked in the second quarter of 2008 and fell – by 57% – until the third quarter of 2009, before stabilising in 2010. The steepest declines were seen in hospitality and construction. In Australia, monthly applications for temporary skilled workers peaked in June 2008, before falling 62% by October 2009. Applications picked up again in 2010, but remained below the 2008 levels. In the Netherlands, applications for work permits were down 38% in 2009 compared with 2006, and did not start to recover until the second quarter of 2010, remaining below their pre-crisis level.

Lower employer demand translated into fewer actual entries for employment in most OECD countries

Figure 2

## APPLICATIONS AND AUTHORISATIONS FOR FOREIGN WORKERS (thousands)

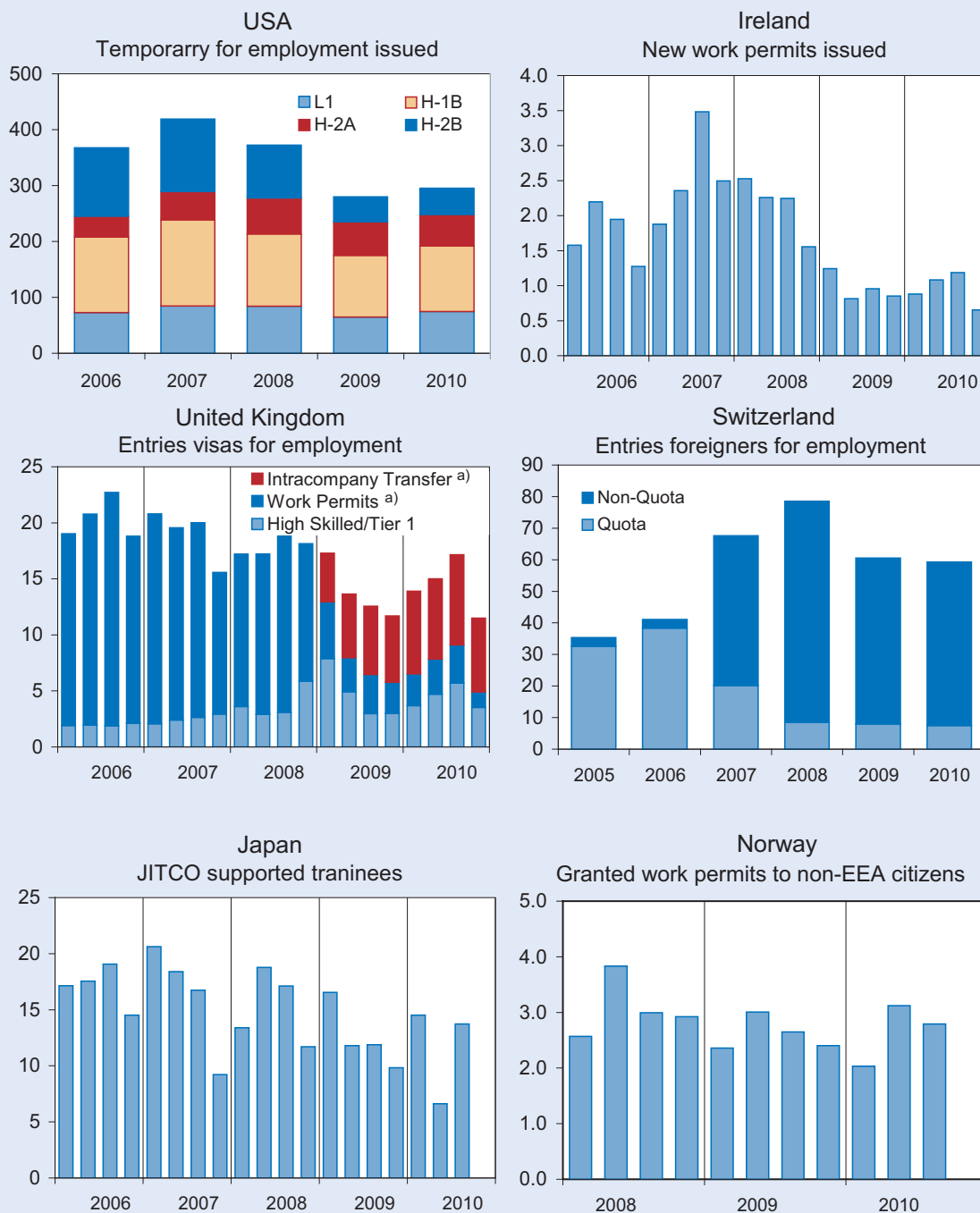


Note: Policy changes in Australia affected application levels. Stricter English language requirements imposed in 2007 (\*) and the migration legislation amendment (work protection act) was implemented in 2009 (\*\*).

Source: USA: Department of Labor; CAN: Human Resources Canada; Australia: Ministry of Immigration; New Zealand: Department of Immigration; Netherlands: Ministry of Justice; Finland: Immigration Service.

Figure 3

### VISAS ISSUED AND ENTRIES FOR EMPLOYMENT (thousands)



Note: <sup>a)</sup> Prior to 2009, no distinction was made in the United Kingdom between work permits for intra-company transfers and others.

Source: USA: DHS; Ireland: Department of Enterprise, Trade and Innovation; UK: Border and Immigration Authority; Japan: Japanese Industrial Training Corporation; Norway: Directorate of Immigration; Iceland: Ministry of Labour.

(Figure 3). Those countries struck earliest and hardest by the crisis saw some of the most significant decreases. In Spain, labour migration under the general regime fell from over 200,000 in 2007, to 137,000 in 2008 and less than 16,000 in 2009. The first quarter of 2010 saw fewer than 2,000 entries. The number of participants in the Spanish seasonal work programme fell even further: from 65,000 in 2007 and 41,300 in 2008 to just 3,600 in 2009. This drop occurred against the background of a fall of only 3% in agricultural production and employment, suggesting that Spaniards and resident foreigners returned to agricultural work as other job opportunities disappeared. However, seasonal agricultural programmes have been stable or even increasing in Germany, the United States, Canada, New Zealand, and most other OECD countries with a programme in place, except for Italy.

Ireland saw a drop in the number of work permits issued to non-EEA citizens. By early 2009, the number stabilised at about one-third of its 2007 peak level. In Switzerland, labour migration fell by about 25% between the end of 2007 and the end of 2009, and remained at that level in 2010.

In the United Kingdom, where labour migration from outside the EU is limited to skilled workers, the number of visas issued for employment under its Tier 2 programme (employer-driven and labour-market tested) was more than 35% lower in 2009 than in the previous year. In contrast, the number of entries under the Tier 1 programme for the highest skilled – who do not require a prior job offer – have been more resistant to the crisis. Recent policy changes, however, almost closed this channel of entry in the United Kingdom.

In Norway, where non-EU immigration is limited to the highly-skilled, the number of entries for employment from outside the EU remained steady. Similar trends were observed for the highly-skilled for example in Denmark or France. In Germany, which liberalised its labour migration policy in spite of the crisis, inflows of highly-skilled migrants rose significantly by 24% between 2008 and 2009, albeit from a low baseline of 17,000, in part due to more changes of status by graduating students.

More generally, even steep declines in GDP and rises in unemployment do not mean the end of all demand-driven labour migration. In many cases, this kind of migration was already limited to the highly-

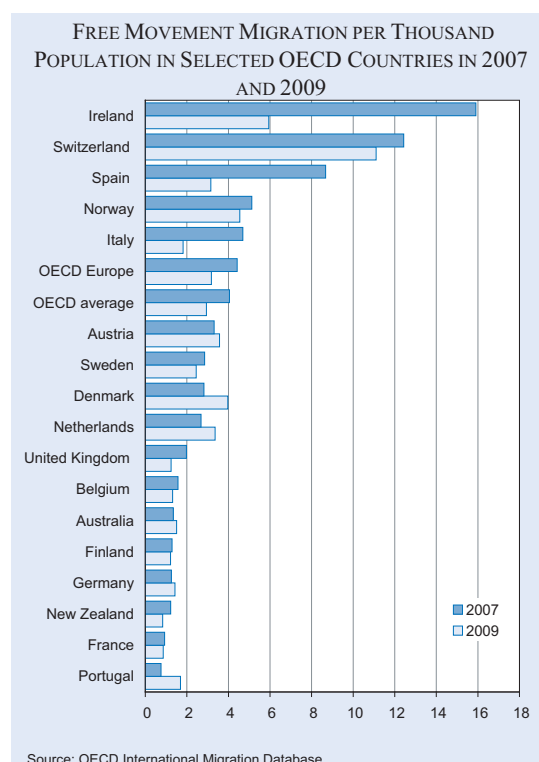
skilled workers in short supply, and employers still struggle to find such workers even in a slack labour market. Employers may also be reluctant to withdraw applications for hiring high-skilled foreign workers that have already been filed prior to the downturn and for whom they have already incurred recruitment costs.

*Free movement migration*

A large share of migration in OECD-Europe prior to the crisis resulted from free movement, following the expansion of the European Union in 2004 and 2007 and, in the case of Switzerland, bilateral agreements with the EU and its member countries. In the midst of the economic crisis, it became apparent that free-movement migration and temporary labour migration outside of free mobility regulations were the types of flows most affected by the decline in the demand for workers. Within free-mobility areas, costs of migration are lower and information about job opportunities is readily available, in principle making migration more reactive to changing conditions.

While free movement went down by about one third on average over OECD-Europe, not all countries were affected evenly. The decline was particularly strong in Ireland, Spain, Italy and, to a lesser degree,

**Figure 4**





in the United Kingdom (see Figure 4). These countries had seen large inflows of nationals from the EU-8+2, particularly from Poland in the case of Ireland and the United Kingdom, as well as from Romania in the case of Italy and Spain.<sup>4</sup>

The average decline in free mobility and discretionary labour migration flows was a driving factor of a general drop in overall migration by 5% in 2008 and 7% in 2009. However, in OECD-Europe on average the share of free movement among total permanent-type flows declined only a little (Figure 5). Nevertheless, the picture is not uniform across countries. While there have been strong declines in relative terms in Italy, the United Kingdom, Spain and Ireland, the share of free mobility among total permanent migration actually increased in Germany, Portugal, the Netherlands, Austria and Denmark. Among these, Germany and Austria had at the time not fully opened their labour markets to nationals from the countries that joined the European Union in 2004.

It is important to note that free mobility is not entirely employment-based, and one reason why flows have not declined even more strongly along with labour demand is the fact that family and other components of free mobility migration may have remained at roughly the same level or even increased during the crisis. One example is Sweden, where inflows from the EU-27/EFTA for employment declined from 2006 to 2009. During the same period, however, inflows of EU-27/EFTA citizens for other reasons – largely family and study – remained constant.

**Conclusion**

The crisis has posed a significant test to the responsiveness of existing migration policies, one which so far they have passed rather well. Where adjustments were needed in the hardest-hit countries, existing policy instruments were enough to adapt to changing labour demand. No major policy reversals or legislative overhauls occurred in reaction to the crisis.

The crisis did not bring migration to a halt. Incentives to migrate remain, and family and humanitarian migration – which together still account for the majority of migration flows in many countries – are less affected by economic conditions. What is clear is that labour migration has fallen sharply, especially lesser skilled and temporary labour migration, as well as free movements. Overall, migration flows show significant inertia, and expectations that deteriorating labour market conditions would produce a drop in immigrant populations have thus far proven to be unfounded.

One effect that lower labour migration flows have – whether driven by reductions in labour demand or by more restrictive policies – is to change the composition of total migration flows, away from migration for employment towards migration categories which are associated with lower labour market outcomes, at least initially after arrival. The compositional effect, compounded with the worsening outcomes for immigrants during an economic downturn, makes it likely that employment outcomes for recent immigrants in the near term will worsen before they improve. In addition, there is a risk of a “scarring effect” on the employment prospects of the many migrants who arrived just prior to or during the downturn who did not get a foothold in the labour market. Immigrant youth, long-term unemployed immigrants, and new arrivals all represent

**Figure 5**



<sup>4</sup> The declines in free mobility flows recorded for Italy and Spain between 2007 and 2009 were largely due to an exceptionally high number of Romanian and Bulgarian citizens reported in 2007 upon accession.

particularly vulnerable groups. At a time when budget constraints are tighter than ever before, delaying or cutting back on integration measures would have negative long-term implications for the integration of immigrants and social cohesion.

The likelihood of a slow and gradual recovery also raises the question of how to adapt migration policies over the coming years, knowing that the crisis has contributed to creating a labour reserve. Finding the right balance between active labour market policy and recruitment policy in this context will be a challenge.

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