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Research Report

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ZEW policy brief, No. 05/2023

Provided in Cooperation with:

ZEW - Leibniz Centre for European Economic Research

Suggested Citation: Sommerfeld, Katrin (2023) : Tailoring migration policies to address labour shortages, ZEW policy brief, No. 05/2023, ZEW - Leibniz-Zentrum für Europäische Wirtschaftsforschung, Mannheim

This Version is available at:

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Tailoring Migration Policies to Address Labour Shortages

Labour markets in the European Union are increasingly facing labour shortages. This ZEW Policy Brief argues that immigration from third countries should be increased to alleviate bottlenecks in the supply of workers to the economy. On the one hand, immigration policies should target high-skilled individuals and those trained in shortage occupations and allow them to search for a job from within the EU. On the other hand, low-skilled employees also appear to contribute to mitigating labour shortages. This is because labour shortages are also present in some low-skill occupations, and because additional immigrant workers could “free up” native workers to work in shortage occupations or push natives into better jobs. Therefore, this ZEW policy brief recommends enabling the immigration of such individuals when they have a job offer available. Broader policy measures should be put into place to facilitate the recognition of foreign qualifications.



KEY MESSAGES

- High-skilled individuals and those trained in shortage occupations should be able to enter the EU more easily to search for a job. This promises to address shortages of skilled labour.
- Low-skilled individuals also appear to contribute to alleviating labour shortages, either directly by working in low-skill shortage occupations, or indirectly by “freeing up” native workers. Therefore, low-skilled individuals should also be allowed to search for a job in the EU from abroad and obtain a visa once they have a job offer.
- Asylum seekers tend to enter the labour market at a slow pace. However, they may remain in the host country longer than other immigrants, which is why efforts to support their labour market entry may pay off in the long run. In addition, hosting them generates additional employment for natives, and promotes local economic growth.
- Migrant workers need better general support from governments: more language training, more training on the job, easier recognition of foreign qualifications, as well as fast and easy administrative processes (including the offering of administrative services in additional languages).
- The benefits of retaining immigrant workers in the EU are often overlooked. Protecting immigrants from abuse, discrimination, and exploitation can ensure higher retention rates and better working conditions, and needs greater policy support.

INCREASING MIGRATION TO ADDRESS JOB VACANCIES IN THE EUROPEAN UNION

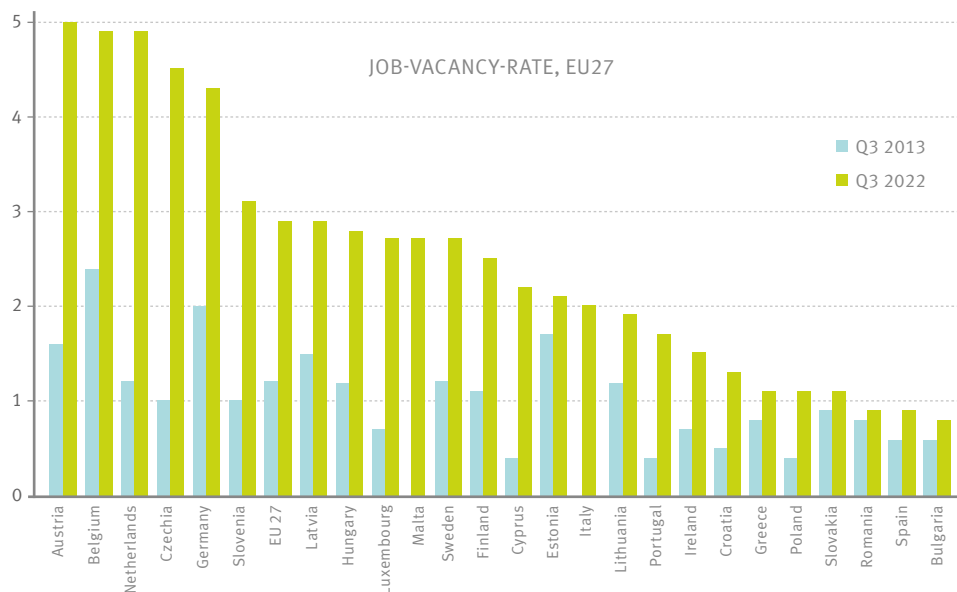
Migration within and into the European Union (EU) has increased sharply over the past two decades. Successive enlargements of the EU in 2004, 2007, and 2013 have contributed to growing within-EU migration, whereas wars have contributed to growing refugee immigration from third countries, with peaks experienced in 2015 and 2022. These increased migration flows come at a time when growing labour shortages in some regions and industries are starting to impede economic growth. Against this backdrop, how can migration policies be designed so that migration can help to alleviate labour shortages?

Labour shortages reflect a mismatch between labour demand and labour supply, which may be quantitative or qualitative. If more employees leave the labour market (through retirement or emigration) than new workers enter it, there may be a quantitative mismatch, i.e. too small a workforce for given labour demand. A qualitative mismatch can occur when the skills of the unemployed do not match the skills required by employers. The EU population is ageing as the generation of baby boomers enters retirement. This implies a quantitative mismatch if current labour demand is taken as given. At the same time, Europe is seeking to transform itself digitally and ecologically. This will require qualified personnel, thus risking a qualitative mismatch.

Increasing migration to address labour shortages

Quantitative vs. qualitative labour shortages

FIGURE 1: JOB VACANCY RATE, EU27, 2013 (Q3), AND 2022 (Q3), IN PER CENT



Source: Author's figure based on Eurostat, Job vacancy statistics by NACE Rev. 2 activity – quarterly data [jvs_q_nace2], unadjusted data.

Currently, there are quantitative and qualitative labour shortages in some regions and industries in the EU. Figure 1 shows the job vacancy rate across EU countries. This is the most frequently used indicator of labour shortages, reflecting the difficulty with which vacancies can be filled at current working conditions. Figure 1 shows that all countries have experienced an increase in the share of unfilled job vacancies from 2013 to 2022. On average across all EU countries, the job vacancy rate has more than doubled in less than a decade: from 1.2 per cent in 2013 to 3.0 per

Growing job vacancies in the EU

cent in 2022. At the same time, unemployment in the EU has been steadily decreasing, reaching a record low of 6.1 per cent in December 2022. Labour shortages are not restricted to high-skilled occupations; indeed, the OECD acknowledges labour shortages “including in low- and middle-skilled occupations” (OECD 2022, p. 12).

In response to labour shortages, firms can raise wages or change their production function, e.g. by increasing automation. While wage increases might be a short-term remedy for some firms, they are difficult to implement in some highly regulated sectors, e.g. health care. On top of this, potential wage increases do not solve the aggregate problem, but only relocate some employees between firms and industries. Other measures are necessary, such as increasing the workforce through higher labour force participation rates among women and the elderly, increasing the working hours of part time workers, improving working conditions, and upskilling. In addition, immigration represents a promising solution to labour shortages, given adequately designed immigration policies, as discussed in the following.

Different approaches to alleviate labour shortages

POLICIES FOR DIFFERENT SKILL GROUPS

Current immigration policies focus on high-skilled individuals, especially in shortage occupations. Most points-based immigration systems include a qualification requirement; the revised “EU Blue Card”, for example, targets highly skilled workers from third countries. For this group of skilled individuals, a signed employment contract should not be the only route for entering the EU. Specifically, high-skilled immigration should be further eased through the granting of job-search visas. Some EU countries have introduced start-up visas, freelance visas and digital nomad visas (measures that primarily but do not exclusively encourage skilled migration). Furthermore, as the number of business start-ups is especially high among migrants, Europe should not overlook immigrants’ positive effects on the entrepreneurial dynamism of the labour market.

High-skilled migration should be encouraged

In addition to policies for skilled workers, policies aiming at low-skilled workers should be strengthened for two reasons. First, labour shortages affect occupations across all educational levels. Second, immigrants working in non-shortage occupations may “free up” other individuals to work in shortage occupations. There are indications that this theoretical channel seems to work in practice: It has been shown that in Danish regions hosting more refugees, low-skilled native workers are “pushed” into less manual-intensive occupations with a higher cognitive non-routine task share, leading to higher wages. Presumably, natives or former migrants can use their relative advantage to the newcomers in terms of language skills. By contrast, firms in Danish regions who have hosted fewer low-skilled refugees exhibit a higher degree of automatisisation/robotisation. Immigration of low-skilled employees should be facilitated through better job search opportunities from abroad and fast visa issuance once a job offer is available.

Low-skilled immigration is also beneficial

Asylum seekers are a different group than labour migrants because their immigration is based on the humanitarian right for protection from persecution or war. They enter the labour market slower than labour migrants due to less time for preparing the migration, lower language skills, missing documentation and employment bans. In addition, many asylum seekers are only granted temporary residence status upon arrival; associated uncertainties for the individual have been shown empirically to hinder the labour market integration of asylum seekers. Therefore, granting the individual certainty about their ability to stay in the EU soon after arrival would be beneficial from the perspective of labour market integration. Given that asylum seekers often cannot return to their home countries, they may be forced to stay abroad longer than other migrants do, which is why they have higher incentives to invest in host country specific labour market skills. Thus, integration efforts aimed at this specific group may pay off in the long term. In addition, refugees are often relatively young, so that they can learn relevant occupational skills within the EU and

Asylum seekers boost native employment

thus potentially provide a good fit to fill labour shortages. Furthermore, hosting and supporting refugees generates additional employment for natives (Berbée et al., 2022). While these positive effects have been found to be only short-lived, they tend to particularly benefit women, low-skilled workers, and former migrants. On top of this, ongoing research finds hardly any evidence of negative employment effects for natives when refugees start taking up employment (Gallegos Torres & Sommerfeld, 2023). Instead, refugees appear to complement high-skilled native workers, which is especially important in the presence of labour shortages.

The broader policy framework should be designed to attract and retain workers of all qualification levels. The successful integration of immigrants into society helps to ensure their labour market participation over the medium to long term. To this end, language training has proven essential. Recognition of existing qualifications from abroad should be quick and simple. Here, a standardized procedure across the EU could help to increase transparency and remove hurdles for relocating within the EU. Alternatively, it should be possible for qualifications from abroad to be certified on-the-job in cooperation with firms. Further training should be offered to meet national qualification standards and to facilitate life-long learning---preferably organized on a modular basis. In general, it would be helpful for foreigners who consider migrating to the EU if a higher share of administrative processes, especially visa applications but also work contracts and further training, were available in multiple languages, including English. Finally, the labour market should be monitored to prevent the abuse and exploitation of migrant workers who are especially vulnerable, e.g. due to language barriers.

**Broader policy
measures are needed**

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ZEW policy brief

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