

Effects of Migrant Networks on Labor Market Integration, Local Firms and Employees

Abstract

We study the effects of migrant networks on the labor market integration of asylum seekers, the performance of local firms, and the wages of their employees in Switzerland. We track outcomes of individuals and firms over time using a novel dataset that links six employer-employee matched administrative records covering the universe of residents (citizens, migrants, and refugees) and registered firms from 2008 to 2017. Leveraging the quasi-random placement of refugees across locations upon arrival and a novel instrumental variable strategy, we show that larger local networks substantially and persistently increase employment and labor income of refugees. Network effects are large, accounting for 38% of the variation in incomes within nationality cohorts across cantons 5 years after arrival. In line with homophily in network formation, demographically similar networks and economically successful peers have larger positive impacts. Network effects are further shaped by direct personal contacts: refugees who quasi-randomly live in the same reception center after arrival are three times more likely to become co-workers at the same firm. This provides direct causal evidence that a network's value is at least partly due to information sharing and job referrals. Using a shift-share IV design, we then estimate how a better-matched inflow of migrants affects local firms and their employees: firms experiencing a positive shock to their network hire both more migrants and natives. Their overall wage bill and average wages of existing employees grow. High-skilled natives in particular rise up within the firm-ladder. Overall, this is consistent with networks increasing firm-worker match quality and productivity. Concerns about adverse economic impacts of spatially concentrated immigration are not borne out in the data, suggesting that existing refugee policies in Switzerland and other high-income countries may need to be reconsidered

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