

# Immigrants and the labour market

## SUMMARY

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*We study the relationship between ethnic identity and labour market outcomes of non-EU immigrants in Europe. Using the European Social Survey, we find that there is a penalty to be paid for immigrants with a strong identity. Being a first generation immigrant leads to a penalty of about 17% while second-generation immigrants have a probability of being employed that is not statistically different from that of natives. However, when they have a strong identity, second-generation immigrants have a lower chance of finding a job than natives. Our analysis also reveals that the relationship between ethnic identity and employment prospects may depend on the type of integration and labour market policies implemented in the country where the immigrant lives. More flexible labour markets help immigrants to access the labour market but do not protect those who have a strong ethnic identity.*

— Alberto Bisin, Eleonora Patacchini, Thierry Verdier and Yves Zenou



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# Ethnic identity and labour market outcomes of immigrants in Europe

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## 1. INTRODUCTION

An intense political and intellectual debate is taking place in Europe around migration issues. Rather than being centred on the economic costs and benefits of such inflows, the debate has instead focused on the perceived costs and benefits of cultural diversity.<sup>1</sup> This debate has been particularly intense after the series of violent disturbances in various cities and towns in England (e.g. Oldham, Leeds, Burnley, Bradford) in the spring and early summer of 2001, involving young British Asian men, and the riots in Paris' suburbs in November 2005 where most of the rioters were the French-born children of immigrants from African countries.

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<sup>1</sup> Huntington's (1996) notion of clash of civilization has served as a focal point for those who believe multicultural societies are simply not feasible. In his book, Sen (2000) has opposed these views.

Though a range of potential explanations were proposed, two received considerable attention in political circles and also in the media. The first explanation put forward the lack of a shared civic *identity* that could bring together diverse communities. The second one was the *adverse labour market outcomes* of the ethnic groups, which experienced very high levels of unemployment.

The attention paid to these factors (ethnic identity<sup>2</sup> and adverse labour market outcomes of ethnic minorities) is relatively novel in Europe and does represent a departure from the long-standing debate which has tended to emphasize racial discrimination as the key explanation of ethnic disadvantage. The debate in the United States on these issues, at both a policy and academic level, is of longer standing. One theme that has emerged from the academic literature is that some individuals in ethnic groups may ‘choose’ to adopt what are termed ‘oppositional’ identities, that is, some actively reject the dominant ethnic (e.g., white) behavioural norms while others totally assimilate to it (see, in particular, Ainsworth-Darnell and Downey, 1998). Studies in the United States have found, for example, that African American students in poor areas may be ambivalent about learning standard English and performing well at school because this may be regarded as ‘acting white’ and adopting mainstream identities (Fordham and Ogbu, 1986; Wilson, 1987; Delpit, 1995; Akerlof, 1997; Ogbu, 1997; Austen-Smith and Fryer, 2005; Selod and Zenou, 2006; Battu *et al.*, 2007; Bisin *et al.*, 2009a; Fryer and Torelli, 2010). In some instances, oppositional identities produce significant economic and social conflicts and can lead to adverse labour market outcomes for ethnic minorities. This is a good example that can explain why a strong ethnic identity can lead to adverse labour market outcomes.

In the present study, we contribute to such a debate by providing some evidence on the relationship between *ethnic identity* and *labour market outcomes* of the immigrants in Europe. Using data from the *European Social Survey* (ESS), we are able to differentiate between first and second generation of immigrants and collect some suggestive results on the patterns of cultural and economic integration of immigrants in Europe.

There are very few studies analysing this relationship. Our contribution to this literature is as follows. First, we analyse the relationship between ethnic identity and employment outcomes for immigrants moving to Europe from non-European countries, using information on 20 different European countries. Second, we are able to differentiate between first and second generation immigrants, which enables us to study their cultural and economic assimilation patterns. Finally, we look at policy issues analysing how integration policies as well as labour market policies and conditions affect the relationship between ethnic identity and labour market outcomes.

The paper unfolds as follows. In Section 2, we give some figures of the employment situation of immigrants in Europe. Section 3 discusses the related literature

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<sup>2</sup> For definitions of ‘ethnic identity’ and overviews on this issue, see Akerlof and Kranton (2010).

and provides some theoretical mechanisms explaining the relationship between employment and ethnic identity. Section 4 describes the ESS data and details, in particular, how we identify the different generations of immigrants and how we measure ethnic identity. Section 5 empirically investigates the relationship between ethnic identity and employment outcomes of immigrants in Europe. In Section 6, we analyse the different integration and labour market policies implemented in Europe and relate such policies to our research question. Finally, Section 7 contains some concluding remarks.

## 2. THE LABOUR MARKET SITUATION OF IMMIGRANTS IN EUROPE

In 2006, persons born abroad represented a significant portion of the workforce and of the employed population in European countries. There were, however, some important variations among host countries, reflecting differences in terms of immigration in general (Table 1). In Finland, and in the countries of Central and Eastern Europe, immigrants account for less than 3% of total employment. In

**Table 1. Share of the foreign-born in total population, labour force and employment (15–64 years old)**

	Share in the total population		Share in the total labour force		Share in employment	
	2002	2006	2002	2006	2002	2006
Australia	26.6	27.6	24.7	25.7	24.7	25.6
Austria	13.2	17.0	13.3	16.2	12.7	15.4
Belgium	12.4	13.5	11.3	12.3	10.1	11.1
Canada	18.4	19.8	19.9	21.2	19.8	–
Czech Republic	2.0	2.0	1.9	1.9	1.8	1.8
Denmark	6.7	7.1	5.7	6.0	5.5	5.8
Finland	2.5	3.3	2.4	3.1	2.2	2.8
France	12.4	12.5	11.7	12.0	11.0	11.2
Germany	8.9	8.8	8.6	8.7	8.3	8.5
Greece	6.4	7.6	7.4	8.3	7.2	8.3
Hungary	1.3	1.7	1.3	1.7	1.4	1.8
Ireland	9.3	13.1	9.5	13.9	9.4	13.7
Italy	4.1	7.6	5.1	8.6	5.0	8.5
Luxembourg	37.7	40.4	41.4	44.6	41.1	43.8
Netherlands	13.1	12.8	11.3	11.0	11.0	10.3
Norway	7.0	8.5	6.5	7.8	6.2	7.4
Portugal	5.8	7.4	6.3	7.9	6.2	7.8
Slovakia	–	0.7	–	0.7	–	0.7
Spain	6.8	13.6	7.8	15.1	7.6	14.6
Sweden	14.0	14.9	12.4	13.5	11.7	12.5
Switzerland	–	26.1	–	25.4	–	24.4
UK	9.7	11.8	8.8	11.2	8.6	11.0
USA	14.8	15.6	14.7	15.7	14.6	15.8

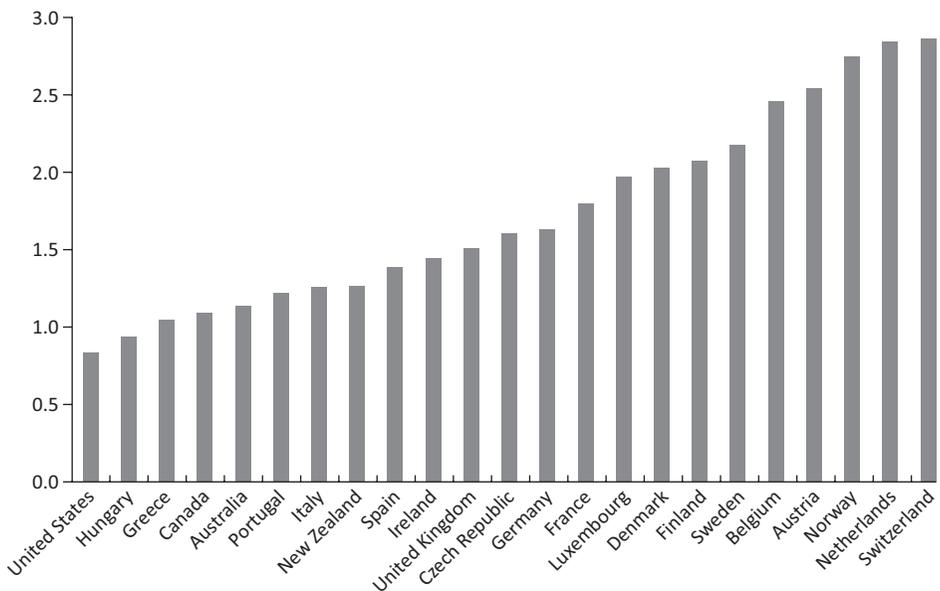
*Sources:* European countries: European Union Labour Force Survey (data provided by Eurostat) and census of population 2001, for Italy; Australia: Labour Force Survey; Canada: 2001 and 2006 population censuses; United States: Current Population Survey, March supplement.

Switzerland, by contrast, this figure is as high as 26%, and it is nearly 44% in Luxembourg.

In most European countries, immigrants represented a larger share of employment in 2006 than in 2002. The increase was particularly notable in Spain (more than seven percentage points), and also in Ireland and Italy (3.5 to 4.5 percentage points), and to a lesser extent in Austria, the United Kingdom and Luxembourg (about 2.5 percentage points). The Netherlands is an exception here: it was the only European country to see the immigrant employment share decline between 2002 and 2006 (down by 1.5 percentage points). Thus, while about 11% of that country's jobs were held by foreign-born workers in 2002, this figure was only 10.3% in 2006.

In all European countries, immigrants find it hard to enter the labour market. The labour market in itself is decisive for how individuals who have immigrated are integrated in their new countries. Immigrants generally have a weaker position on the labour market than natives. This is clearly shown in Figure 1, which indicates the relative position of immigrants on the labour market in European countries (and also in other OECD countries such as the United States and Canada).

In all countries, with the exception of the United States and Hungary, unemployment is larger among individuals who have immigrated than for the native



**Figure 1. Unemployment rate of immigrants relative to the native-born, 2006**

*Sources:* European countries: European Union Labour Force Survey (data provided by Eurostat); Australia: Labour Force Survey; Canada: Census of population, 2006; United States: Current Population Survey, March supplement.

population. There are large differences between countries, however. In the Nordic countries and in Austria, Belgium and Switzerland, immigrants are over-represented among the unemployed by a factor of at least two compared to their share in the labour force (in other words, their unemployment rate is at least twice that of the native-born). In France, in Germany and even in the United Kingdom, those born abroad also suffer a notably higher rate of unemployment. On the other hand, in recent immigration countries (especially Greece and Portugal), place of birth makes little difference to the unemployment rate.

The motivating question of this article is why immigrants have such a hard time entering the European labour market. There are many explanations but we will mainly focus on how ethnic identity and integration as well as labour market policies in Europe can affect this outcome. In the next section, we expose the theoretical mechanisms that can explain the negative relationship between identity and employment.

### **3. ETHNIC IDENTITY AND LABOUR MARKET OUTCOMES: THEORETICAL MECHANISMS AND RELATED LITERATURE**

There are in fact few studies that have analysed the connection between ethnic identity and labour market outcomes for individuals with a foreign background.

Even though the mechanisms are slightly different, there are some *theoretical models* that have analysed the link between ethnic identity and education. Austen-Smith and Fryer (2005) propose a model where ethnic individuals are defined by two types: her *social type*, reflecting her compatibility to the group, and her *economic type*, reflecting her intrinsic ability or market potential. Austen-Smith and Fryer (2005) show that there is tension faced by ethnic minorities between signalling their type to the outside labour market and signalling their type to their peers: signals that induce high wages can be signals that induce peer rejection. Patacchini and Zenou (2006) develop a different model where ethnic students prefer to have friends of the same race (preference bias) but value white friends because their parents have higher human capital levels, inducing better grades. They show that having a higher percentage of same-race friends (measure of identity) has a positive effect on white teenagers' school performance while having a negative effect on blacks' school performance. Finally, Battu *et al.* (2007) propose an explicit model where the relationship between ethnic identity and employment outcomes is analysed. In this model, ethnic minorities are defined with respect to their social environment (family, friends, neighbours) and their attachments to their culture of origin (religion, language), and jobs are mainly found through social networks. There are two types of firms: those which have a strong preference for hiring whites and those which are race neutral. Ethnic minorities must decide to totally or partially adopt the white culture or to reject it by anticipating the implications of this choice on their labour market outcomes, given that whites have a better

social network. There are two countervailing forces. On the one hand, ethnic minorities would like to mainly interact with same-race friends and thus to reject the white's norm (preference bias). On the other, interacting with whites is beneficial because ethnic workers may then benefit from the high quality of whites' social networks since the latter do not suffer from discrimination. They find that *ex ante* identical ethnic workers can end up choosing 'oppositional identities' (as defined above), that is, some ethnic minorities reject while others conform to the white's norm. Their results depend on the value of the intensity of peer pressure, the wage premium of being employed, and the marginal impact of the identity choice on the ethnic-minority unemployment rate. This paper can help us understand why having a strong identity can be harmful to ethnic minorities: discrimination and a lack of good social network can induce minorities to reject the white's norm and not to search intensively for a job.

There are some *empirical papers* that have tested the relationship between ethnic identity and employment outcomes. Pendakur and Pendakur (2005), using data from Canada, examine the effects of ethnic identity on the use of informal networks to obtain jobs and on employment itself. They find that for European ethnic minorities the strength of minority identity is positively related to the use of informal methods (friends and family) for gaining employment but there is no effect for 'visible' ethnic minorities (those of non-European and non-Aboriginal origin). For 'visible minorities', ethnic identity is also associated with lower occupational prestige and this finding is not evident for white minorities. Mason (2004) focuses on the consequences of identification to the majority culture and skin colour of Hispanic Americans for labour market outcomes. For Hispanic groups, adopting a non-Hispanic white racial identity is associated with higher annual income and hourly wages. However, this is not sufficient to overcome the negative penalties associated with a dark complexion or a non-European phenotype. Constant *et al.* (2006) and Zimmermann *et al.* (2007) investigate the connection between the different degrees of identification to the majority and minority cultures (i.e. integration, assimilation, separation and marginalization; see Berry, 1997) and the probability of being employed in Germany. They find no systematic differences in employment between assimilated and integrated men, but they do find differences between assimilated and integrated women, at the advantage of the latter. At the same time, the results show that the probability of being employed, independent of sex, is significantly lower for those who are separated and marginalized as compared to those who are assimilated. This can be interpreted as a strong minority identity not having any negative effect on the chances of being employed, given that it is combined with a strong majority identity. Just like the identification with the German majority culture can increase the probability of being employed, being employed might increase the feeling of affinity with German culture. Results showing that those who identify with the majority culture are employed to a larger extent might simply be due to these individuals having had a good labour market

situation in a historical perspective. First, this might have increased the probability of identifying with the majority culture and second, it might have increased the probability of future employment. In the same country-context, that is, Germany, Casey and Dustmann (2010) study the formation of identity with home and host countries and the association between both identities and labour market outcomes. The uniqueness of their dataset, which is a long panel that oversamples individuals with a foreign background and contains information for both parents and their children on ethnic group identity, also allows them to study the intergenerational transmission of identity from one generation to the next. Their findings denote a strong transmission of ethnic traits between parents and children, as well as signs of a relationship between ethnic identity and labour market outcomes, although the effect does not appear to be particularly pronounced. Nekby and Rödén (2010) study the relation between cultural identity and employment in Sweden. The results show that there are only small differences in employment between individuals with an integrated identity and those with an assimilated identity. Those who are integrated have a three percentage point lower chance of being employed as compared to those who are assimilated. But individuals with the separated identity have considerably lower chances of becoming employed and an eight percentage point lower probability of being employed than those who are assimilated. The differences in employment between different cultural identities are a male phenomenon. The results for men are similar to those that apply for the whole group while the results for women do not show any systematic differences between the different cultural identities as concerns employment. The differences among men are small between the integrated and the assimilated identity while the separated identity has considerably lower chances of employment (9.5 percentage points) as compared to the assimilated identity. Finally, for the UK, Battu and Zenou (2010) undertake a simple empirical investigation of the relationship between an oppositional identity and employment in the labour market in Britain. Their results indicate that the social environment of individuals has an influence on their identity choice and that those non-whites who have preferences that accord with being oppositional are likely to experience an employment penalty. They actually have a seven percentage point lower possibility of being employed as compared to those who are not oppositional. There is also a cost of being against mixed marriages; people who care about whether a close relative would like to marry a white person also have a lower probability of being employed.<sup>3</sup>

All studies imply that there is a strong identification with the majority culture that is important in order to succeed on the labour market and that the degree of identification with the cultural background seems to be less important.

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<sup>3</sup> See also Battu *et al.* (2010) who investigate the relationship between ethnic identity and the efficiency of social networks in finding a job.

So far, we have examined papers that only consider ‘subjective’ measures of identity, not ‘objective’ measures like intermarriage rates,<sup>4</sup> racial choice of friends, fertility rates, gender gaps, etc. There is a literature that looks at these issues (Meng and Gregory, 2005; Chiswick and Houseworth, 2008; Bisin *et al.*, 2009b; Furtado and Theodoropoulos, 2009) and relates, in particular, these ‘objective’ measures to employment, earnings. These papers also find that there is a penalty in terms of outcomes for ethnic minorities who have a strong identity as determined by these ‘objective’ measures.

In this paper, we investigate the relationships between the identity of non-EU immigrants in Europe and their labour market outcomes. The main difference with the previous studies is that we will use data on most of the 25 European countries (and not on only one country) and, as a result, be able to draw some general policy implications for Europe. The drawback is that the information on some variables is not as good as in the country-specific dataset used in the studies discussed above.

#### 4. DATA

We use data from the European Social Survey (ESS), which is an EU-funded survey conducted in most European countries every two years, starting from 2002. The questionnaire comprises ‘core’ items (which are repeated in all rounds) aiming at monitoring change and continuity in a wide range of socio-economic, socio-political, socio-psychological and socio-demographic variables and ‘rotating’ items (which vary from round to round) aiming instead at deepening the understanding of some special topics. A supplementary questionnaire is also administered to all respondents, asking questions on human values.<sup>5</sup> In particular, the ESS contains information on the country of birth of both the respondent and the parents, which allows us to precisely identify the immigrants as well as to distinguish between first and second generation of immigrants. It does not, however, oversample the individuals with a foreign background. As a result, the limited sizes of the immigrant sample in the different European countries do not allow us to differentiate immigrants by ethnic groups. We reduce the heterogeneity within the immigrant population in Europe by focusing our analysis on immigrants coming from *non-European (non-EU) countries* only. We classify the respondents as immigrants if one or both parents are born in a non-EU country. We then define first-generation immigrants if born in a non-EU country and second-generation immigrants if born in the ‘host’ country. We bundle the countries of origin by geographical area, following the classification

<sup>4</sup> Inter-marriage is considered to be a measure of social assimilation and also a factor producing it (Pagnini and Morgan, 1990).

<sup>5</sup> The ESS is academically led and, as a result, has used a methodologically rigorous multinational design that guarantees representativeness. A slightly modified formulation of the main questions is also administered to a sub-sample of respondents in order to determine measurement errors and the reliability of the items.

provided in the first round of the ESS, where the information on the country of birth is limited to the continent of birth: 'Asia', 'Africa', 'North America', 'South America and Caribbeans', 'Australasia'.<sup>6</sup>

We use the *cumulative* ESS data, which pools the common information from the first to the third ESS round. It includes countries participating in at least two rounds, ending up with a total of 24 countries and roughly 125,000 individuals. Because we are ultimately interested in investigating the relationship between ethnic identity and employment prospects, we consider individuals between 16 and 64 years only. We also exclude countries for which the number of surveyed non-EU immigrants is particularly small (lower than 10 people). Our final sample consists of approximately 85,000 individuals covering the countries Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom and Ukraine. Immigrants represent about 4% of our sample, of which roughly 64% belong to the first generation and 36% to the second generation. Immigrants mainly come from Africa (38%) – predominantly from Maghreb – from Asia (37%) and South America and Caribbean states to a lesser extent (16%).

The ESS provides information on different dimensions of ethnic identity. In particular, it contains direct questions about the 'attachment to religion', the 'importance of following traditions and customs', and the 'language most often spoken at home'. It does not contain, however, information on the relationship between ethnic identity and the identity of the 'majority' group where this person lives. For example, Bisin *et al.* (2008) as well as Battu and Zenou (2010) use the UK Fourth National Survey of Ethnic Minorities (FNSEM) collected in 1993/94 by the Policy Studies Institute (PSI), which deliberately over-samples ethnic groups and contains extensive information on various issues surrounding ethnic identity and preferences. For example, in this dataset, ethnic minorities had to choose between 'Strongly agree', 'Agree', 'Disagree', 'Strongly disagree', 'Neither disagree or agree' to answer the following questions: 'In many ways I think of myself as British' and 'In many ways I think of myself as [Respondent's ethnic group]'.

We measure here the strength of ethnic identity for each individual using a composite index, which is derived on the basis of the answers to the questions related to the *three dimensions of ethnic identity* mentioned above. The first variable 'attachment to religion' is taken from the direct ESS question: 'How religious would you say you are?', with a scale of 1 to 10, with 0 being 'not religious at all' and 10 'very religious'. For immigrants coming to Europe from non-EU countries, it seems reasonable to assume that the attachment to religion is a measure of identity, especially for groups like Muslims, Sikhs and Buddhists where religion is a way of keeping

<sup>6</sup> 'Australasia' includes Australia, New Zealand, and neighbouring islands in the Pacific Ocean.

traditions from the home country (Bisin *et al.*, 2008).<sup>7</sup> The second variable ‘importance of following traditions and customs’ is taken from the ESS section on human values that asks the following question: ‘How much like you is this person? Tradition is important to him. He tries to follow the customs handed down by his religion or his family.’ The possible answers are: ‘Very much like me’, ‘Like me’, ‘Somewhat like me’, ‘A little like me’, ‘Not like me’, ‘Not like me at all’, re-coded with a scale 6 to 1. Finally, our last indicator of ethnic identity ‘language most often spoken at home’ is instead a dichotomous variable taking value 1 if the language most often spoken at home is different from the national language (and also different from English) and 0 otherwise.<sup>8,9</sup>

The composite index of ethnic identity is obtained using a standard factor analysis which suggests retaining only one combined variable as an appropriate summary of the three basic indicators. It explains roughly 50% of the total variance. The factor loadings show that it is almost equally driven by ‘attachment to religion’ and ‘importance of following traditions and customs’ whereas ‘language most often spoken at home’ contributes to a lesser extent. It has a standard deviation equal to one, which eases the interpretation of the results.

## 5. ETHNIC IDENTITY AND EMPLOYMENT OUTCOMES

Table 2 displays the immigrant to native gap in terms of identity, education and employment prospects, distinguishing between first and second generation of immigrants and regions of origin. We include as controls, when relevant, the level of education, gender, age, a quadratic function of age, years since arrival in the (host) country and (host) country dummies.<sup>10</sup> Table 2 reveals that first-generation immigrants have a higher level of identity than native Europeans, regardless of the region of origin. They also tend to be less educated than Europeans and, control-

<sup>7</sup> In the case of the United States, it is well established that religious activities have an important impact on blacks’ sense of identity. Indeed, the black church is the anchoring institution in the African American community (Lincoln and Mamiya, 1990; Myrdal, 1944). The church acts simultaneously as a school, a benevolent society, a political organization, a spiritual base, etc. Black churches are significantly more likely than white congregations to participate in civil rights activities. For example, using data from the 1979–80 National Survey of Black Americans, Ellison (1993) shows that participation in church communities fosters positive self-perception of blackness through the interpersonal supportiveness and positive reflected appraisals of coreligionists.

<sup>8</sup> There is a literature that emphasizes the importance of English language fluency (Chiswick, 1978; McManus *et al.*, 1983; Borjas, 1994; Dustmann and Fabbri, 2003) and religion and culture (Iannaccone, 1998; Lazear, 1999; Brown, 2000) for the degree of assimilation and labour market outcomes of immigrants.

<sup>9</sup> In the ESS, there are other interesting questions related to ethnic identity, such as those asking opinions on, for example, if it is good for a country if almost everyone shares the same customs and traditions or if immigrants should be allowed to educate their children in their own separate schools if they wish. Unfortunately, these questions are only available in the first wave (special module on immigration), whereas we need to pool all three waves to get a large enough size of the immigrant sample.

<sup>10</sup> Employment prospects are measured using a dummy variable equal to 1 if the individual is in paid work (including self-employment) and 0 otherwise. Unfortunately the ESS does not provide information on wages (only a proxy for total household income is available and it contains too many missing values). Moreover, we cannot perform our analysis by type of contract because of too small sample sizes for immigrants in paid work.

**Table 2. Immigrant to native identity, employment and education gap by region of origin and generation (whole sample)**

	(1)		(2)		(3)	
	Identity		Education		Employment	
	1st Gen.	2nd Gen.	1st Gen.	2nd Gen.	1st Gen.	2nd Gen.
Africa	1.7438*** (0.1088)	0.2829*** (0.0703)	-1.1801** (0.5215)	0.3994* (0.2198)	-0.2666*** (0.0534)	-0.0713** (0.0315)
Asia	1.6034*** (0.1113)	0.3145*** (0.0815)	-0.8461* (0.5042)	0.3392 (0.2422)	-0.2627*** (0.0534)	-0.0002 (0.0382)
North America	0.9158*** (0.1897)	-0.0156 (0.1328)	2.6080*** (0.7774)	0.7378 (0.4888)	-0.2380*** (0.0753)	-0.0297 (0.0650)
South America and Caribbean	1.0625*** (0.1075)	0.0534 (0.1002)	-0.8259* (0.4763)	0.2739 (0.3613)	-0.0682 (0.0561)	-0.0186 (0.0521)
Australasia	0.7540*** (0.2122)	-0.0446 (0.1948)	-0.6349 (0.9387)	1.3305* (0.7901)	-0.0430 (0.1378)	-0.0276 (0.1615)
Age	0.0078*** (0.0022)		0.2648*** (0.0073)		0.0980*** (0.0012)	
Age <sup>2</sup>	0.0001*** (0.0000)		-0.0038*** (0.0001)		-0.0012*** (0.0000)	
Education	-0.0136*** (0.0014)		-		0.0197*** (0.0008)	
Female	0.2235*** (0.0092)		(0.0354)	0.1651	-0.2084*** (0.0050)	
Years since arrival	-0.2018*** (0.0267)		(0.1206)		0.0347*** (0.0129)	
Host country dummies	Yes		Yes		Yes	
Observations	77,556		84,361		84,004	
Pseudo-R <sup>2</sup>	0.216		0.925		0.179	

Notes: (1) Dependent variable: Strength of ethnic identity; OLS estimates and robust standard errors (in parentheses) are reported. (2) Dependent variable: Probability to be in paid work; Probit marginal effects and robust standard errors (in parentheses) are reported. (3) Dependent variable: Years of full-time education completed; OLS estimates and robust standard errors (in parentheses) are reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

ling for education, they have a lower probability of finding a job than native Europeans. There is, in particular, a statistically significant (negative) gap for those coming from Africa and Asia. Not surprisingly, immigrants from North America have a higher education level than that of native Europeans. This does not, however, translate into a higher employment probability since there is a negative (and statistically significant) gap with respect to Europeans, which is similar to that of Africans and Asians. Turning to the second-generation immigrants, only for immigrants coming from Africa and Asia we still find a stronger (and statistically significant) sense of ethnic identity as compared to Europeans. Interestingly, this is not any more true for second-generation immigrants whose parents came from North America, South America and the Caribbean, and Australasia. Moreover, the education level of the second-generation immigrants tends to be higher than that of native European, with a statistically significant (positive) difference for those coming from Africa and Australasia. This educational advantage does not seem to be

translated into a higher employment probability. In particular, the second-generation immigrants coming from Africa, which are one of the two groups with a significantly higher education level with respect to natives, show a significant penalty in terms of employment prospects. This could be an indication of discrimination. As noted above, these second-generation immigrants from Africa are one of the two groups that maintain a stronger sense of ethnic identity than native Europeans. This could also be an indication that there is a penalty in terms of employment of having a strong identity.

Let us now examine in detail this last idea: is there a penalty in terms of labour market outcomes for a non-EU immigrant with a strong ethnic identity in Europe? We will investigate this relationship for both first- and second-generation immigrants, controlling for the region of origin, country of destination and individual characteristics.<sup>11</sup>

Table 3 (Panel A) contains the estimation results of a regression analysis where the probability of being employed is regressed on the strength of ethnic identity (as measured by our composite index), immigrant status (being first or second generation), and their interaction terms. The dependent variable is a dummy equal to 1 if the individual is in paid work and 0 otherwise. We control for age, gender, education and years since arrival in the country. We also include region-of-origin dummies and host country dummies. The use of host country dummies is essential in this context because of the large differences between European countries in terms of institutions, especially in the labour market.

We investigate whether and to what extent there is a negative relationship between identity and labour market outcomes when the strength of identity is measured *relative to the native population*, that is, using the whole sample (specification 1), and when considering the absolute level of ethnic identity, that is, restricting attention of the sample of immigrants only (specification 2), so that the strength of identity is measured in absolute terms while, for the second-generation immigrants, it is measured *relative to their parents*.

In line with expectations, we find that the probability of being employed first increases and then decreases with age, is lower for females than for males, and is higher for more educated workers. We also find that, within the immigrant sample, the longer the time spent in the host country, the higher is the probability of finding a job. Focusing now on the identity issues, the results in Column 1 (identity measured with respect to the native population) indicate that, in Europe, a one standard deviation increase in the composite indicator of ethnic identity (encompassing attachment to religion, attachment to traditions and language spoken at home) is, on average, associated with an employment penalty of about 0.7%, which is common to both natives and immigrants. Being a first generation immigrant,

<sup>11</sup> Unfortunately, this further analysis cannot be performed separately by country of origin, destination and immigrant generation because of too small immigrant sample sizes.

**Table 3. Ethnic identity, employment and education**

	(A) Employment		(B) Education	
	(1)	(2)	(1)	(2)
	Whole sample	Only immigrants	Whole sample	Only immigrants
Ethnic identity	-0.0068** (0.0030)	-0.0372** (0.0159)	-0.1845*** (0.0206)	-0.6972*** (0.1391)
First generation	-0.1722** (0.0734)	-	0.4275 (0.7512)	-
Second generation	-0.0630 (0.0522)	0.1540** (0.0624)	0.7792 (0.6129)	-0.4794 (0.5384)
First generation* Ethnic identity	-0.0163 (0.0157)	-	-0.4751*** (0.1385)	-
Second generation* Ethnic identity	-0.0344* (0.0191)	-0.0201 (0.0247)	-0.1352 (0.1234)	0.3333* (0.1833)
Age	0.0972*** (0.0012)	0.1008*** (0.0063)	0.2716*** (0.0072)	0.2655*** (0.0429)
Age <sup>2</sup>	-0.0012*** (0.0000)	-0.0012*** (0.0001)	-0.0039*** (0.0001)	-0.0033*** (0.0006)
Female	-0.2038*** (0.0051)	-0.2123*** (0.0251)	-0.1929*** (0.0355)	-0.0754 (0.2096)
Years since arrival	0.0200 (0.0137)	0.0283* (0.0155)	0.0520 (0.1278)	-0.1834 (0.1334)
Education	0.0195*** (0.0008)	0.0106*** (0.0030)	-	-
Region of origin dummies	Yes	Yes	Yes	Yes
Host country dummies	Yes	Yes	Yes	Yes
Observations	77,291	2,892	77,556	2,904
Pseudo- $R^2$	0.177	0.185	0.928	0.905

Notes: (A) Probit estimation results. Marginal effects and robust standard errors (in parentheses) are reported. (B) OLS estimation results. Coefficient estimates and robust standard errors (in parentheses) are reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

instead, leads to a penalty of about 17% while second-generation immigrants have a probability of being employed that is not statistically different from that of natives. These results seem to indicate an economic integration process of immigrants in Europe.

If we now look at our interaction terms, one can see that being an immigrant and having a strong ethnic identity is associated with a further decrease in the probability of being employed, which is statistically significant only for second-generation immigrants.

When the sense of ethnic identity is instead evaluated in absolute terms (Column 2), we find that the employment penalty increases by more than five times. However, while second-generation immigrants have a higher probability of finding a job as compared to their parents, there is no longer an additional penalty for second-generation immigrants with strong ethnic identities. Taking these results as a whole, the picture seems to be that second-generation immigrants have a higher

probability of being employed as compared to their parents. Compared to natives, there does not seem to be any difference in terms of employment. However, when they have a strong identity, their chance of being employed becomes lower than that of natives.

Our analysis so far has revealed whether and to what extent there is a penalty in terms of labour market outcomes for an immigrant with a strong ethnic identity in Europe, for any given level of education. To understand better these results, let us now investigate the relationship between education and ethnic identity and see if the negative relationship between employment and identity can be mainly explained by lower level of education. We report in Table 3 (Panel B) the results of a similar regression analysis where the dependent variable is now ‘years of education’.

When the performance of the immigrants is compared to that of natives (Column 1), we find that having a strong sense of identity is associated to a lower education level. However, contrary to Panel A, it is now the first generation of immigrants with stronger ethnic identity that seems to be more penalized in terms of education. Indeed, when focusing on immigrants only (Column 2), we find that the penalty is mitigated for second-generation immigrants with a strong ethnic attachment. Therefore, it seems that second-generation immigrants with strong identity encounter difficulties only in the labour market and not in terms of education.

Let us now provide some further insights about the components of the composite indicator that are driving the results and get a better sense of the magnitude of these effects. For that, we now break down our composite indicator of ethnic identity by considering separately ‘importance of religion’, ‘importance of following traditions and customs’, ‘language spoken at home’. Remember that ‘attachment to religion’ is coded on a scale of 1 to 10, ‘importance of following traditions and customs’ on a scale of 1 to 6 while ‘language most often spoken at home’ is instead a dichotomous variable taking the value 1 if the language most often spoken at home is different from the national language (and also different from English) and 0 otherwise. We construct a dichotomous variable (*importance of religion*) taking value 1 if the reported value in ‘attachment to religion’ is (strictly) greater than 5 and 0 otherwise and a dichotomous variable (*attachment to traditions*) taking value 1 if the reported value in ‘importance of following traditions and customs’ is (strictly) greater than 3 and 0 otherwise.

We then repeat the previous regression analysis of Table 3 for our sample of immigrants only by including each of the different indicators of ethnic identity as separate regressors. Table 4 contains the results for employment (Column A) and education (Column B) outcomes. The results in Column A reveal that a strong attachment to religion and not speaking the host-country language at home are the two dimensions of ethnic identity that lower the probability of finding a job whereas a strong attachment to traditions and customs does not seem to play a significant role. In terms of magnitude of the effects, being strongly attached to

**Table 4. Different dimensions of ethnic identity, employment and education (immigrant sample)**

	(A) Employment	(B) Education
Importance of religion	-0.0650* (0.0353)	-0.1561 (0.3069)
Attachment to traditions	-0.0248 (0.0404)	-0.9633*** (0.3274)
Language spoken at home	-0.0703* (0.0384)	-1.3617*** (0.3416)
Second generation	0.1591** (0.0764)	-0.8347 (0.6554)
Second generation* Importance of religion	-0.0533 (0.0573)	-0.3840 (0.4378)
Second generation* Attachment to traditions	0.0073 (0.0601)	0.5615 (0.4524)
Second generation* Language spoken at home	-0.0182 (0.0965)	1.1275* (0.6301)
Age	0.1011*** (0.0063)	0.2686*** (0.0428)
Age <sup>2</sup>	-0.0012*** (0.0001)	-0.0034*** (0.0006)
Female	-0.2120*** (0.0252)	-0.1292 (0.2092)
Years since arrival	0.0257* (0.0155)	-0.1948 (0.1335)
Education	0.0106*** (0.0031)	
Region of origin dummies	yes	yes
Host country dummies	yes	yes
Observations	2,892	2,904
Pseudo-R <sup>2</sup>	0.187	0.906

Notes: (A) Probit estimation results. Marginal effects and robust standard errors (in parentheses) are reported. (B) OLS estimation results. Coefficient estimates and robust standard errors (in parentheses) are reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

religion has a comparable effect to the one associated with speaking a foreign language at home (6.5 versus 7% less chance of finding a job). The results for second-generation immigrants confirm the findings of Table 3 (Panel A, Column 2). Indeed, while second-generation immigrants have a higher probability of finding a job as compared to their parents, there is no longer an additional penalty for second-generation immigrants with strong ethnic identities, regardless of the indicator used to measure ethnic identity.

Interestingly, when turning the attention to education outcomes (Table 4, Column B), we find that the relationship between education and ethnic identity comes from a different source. Contrarily to Column A, it is now a strong attachment to traditions and customs as well as language spoken at home that seems to play an important role. In terms of magnitude of the effects, immigrants strongly attached to traditions have roughly one year of education less than immigrants who are not attached to traditions. Again, the penalty of speaking a foreign language at

home is similar (slightly more than a year). However, in this case, the results for the interaction terms with the second-generation dummy show a signal of attenuation of the effect in terms of language for second-generation immigrants. This evidence thus suggests that our previous result in Table 3 (Panel B, Column 2) about a mitigation of the penalty for second generation immigrants with a strong ethnic attachment is probably driven by the language dimension of our indicator of ethnic identity.

Taking the results of our analysis as a whole, we find that the negative relationship between employment and ethnic identity does not seem to be simply explained by the relationship between education and identity. Factors specific to the labour market, and different than those driving the association between ethnic identity and education, seem also to be at work.

In light of Section 2 above, it could be the case that non-EU immigrants with a strong ethnic identity pay a penalty in the labour market because they are either discriminated against and/or because they have few contacts with the majority group, yielding a poor-quality social network, and/or because they are rejecting the majority's norms in the host country. These different theories are linked to each other because, for example, someone who has been discriminated against can react very negatively by rejecting the majority's culture, which isolates him/her from individuals from the majority. We cannot test which theory prevails but it seems reasonable to assume that all play some role. In Section 6 below, when we will consider the different types of integration and labour market policies in Europe, we will be able to give some (imperfect) answers on this issue since a favourable labour market access policy is an indication that discrimination is less severe in the country in question.

One obvious problem with what we have done so far is that the strength of an individual's identity may in fact be endogenous because of omitted variables and/or simultaneously determined with employment outcomes. Indeed, a lack of success in the *host country* labour market may induce or encourage some to adopt identities that are out of kilter with majority values. Dealing with this issue, especially in this context, is difficult. One standard approach is to undertake a two-stage instrumental variable estimation, where in the first stage the intensity of ethnic identity is estimated with appropriate instruments.

Focusing on the non-EU immigrants in our sample, we instrument the immigrant sense of ethnic identity with the strength of ethnic identity in the country of origin.<sup>12</sup> This variable should be directly correlated with own ethnic identity (if, for example, a Muslim immigrant comes from a very religious country, then he/she is more likely to have a strong attachment to his/her religion than someone coming from a more secular country) but not with own employment probability in the host

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<sup>12</sup> We take the average of our measure of ethnic identity by region of origin.

country. In particular, it should eliminate the portion of variance in the individual strength of ethnic identity that is possibly due to a reverse causality mechanism, that is, the lower the probability of finding a job in the host country, the stronger is one's ethnic identity. The two-stage least squares estimation results are contained in Table 5. The analysis shows a strong first stage  $F$ -test and a still significant and negative impact of the intensity of ethnic identity on employment probability at the second stage, suggesting that the causality points towards the assumed direction. Indeed, our strategy rules out the possibility that the strength of ethnic identity is simply an optimal response to the host country environment.

**Table 5. Robustness check: ethnic identity and employment (2SLS – immigrant sample)**

First stage results	Dep. Var.: Strength of ethnic identity
Country of origin ethnic identity	0.8945*** (0.1692)
Age	0.0089 (0.0133)
Age <sup>2</sup>	-0.0001 (0.0002)
Education	-0.0337*** (0.0062)
Female	0.1634*** (0.0529)
Second generation	-1.1347*** (0.1243)
Years since arrival	-0.1454 *** (0.0312)
Host country dummies	Yes
$F$ test	22.16
$R^2$	0.1651
Second stage results	Dep. Var.: Probability to be in paid work
Ethnic identity	-0.0879* (0.0470)
Age	0.0885*** (0.0037)
Age <sup>2</sup>	-0.0011*** (0.0000)
Education	0.0068* (0.0036)
Second generation	0.0626 (0.0839)
Years since arrival	0.0147 (0.0128)
Female	-0.1667*** (0.0273)
Host country dummies	Yes
Obs.	2,892
$R^2$	0.216

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

## 6. INTEGRATION AND LABOUR MARKET POLICIES, ETHNIC IDENTITY AND EMPLOYMENT OUTCOMES

Our results so far seem to point towards a negative relationship between ethnic identity and labour market outcomes for non-EU immigrants in Europe. As stated above, by rejecting the majority culture in the country where they live, immigrants might find it difficult to enter the labour market. We would like now to study whether this relationship between ethnic identity and labour market outcomes is affected by the integration policies and labour market policies implemented in the host country where the immigrant resides. In other words, is there a lower employment penalty of having a strong identity in countries that have more favourable integration and/or general labour market policies and conditions?

### 6.1. Integration policies

The European Social Survey (ESS) is a survey on individuals and therefore contains no information on integration policies of the 20 European countries studied. We use the Migrant Integration Policy Index (MIPEX),<sup>13</sup> which measures policies integrating migrants in 25 EU member states and 3 non-EU countries. It considers over 140 policy indicators to create a rich, multidimensional picture of migrants' opportunities to participate in European societies. MIPEX covers *six policy areas* that shape a migrant's journey to full citizenship: 'labour market access', 'family reunion', 'long-term residence', 'political participation', 'access to nationality', 'anti-discrimination'. Since policies are measured against the same standards across all member states, MIPEX is a 'benchmark' tool to compare performance. This index varies between 100 (when migrants and nationals have exactly the rights in the corresponding policy area) to 0 (when migrants have no rights at all).

'Labour market access' measures if a migrant worker or entrepreneur is *eligible* for the same opportunities as EU nationals to work in most sectors. In particular, it takes into account if this migrant worker can count on help from *labour market integration measures* to adjust to the language and professional demands of the labour market (for example, if the state helps him/her to get his/her full set of skills and talents recognized, to access training, and to develop language skills that are critical for the job market). It also measures how *secure* a migrant worker is in his/her employment, if he/she can renew most types of work permits and remain living in the country and look for work, if he/she loses her job. Looking at Table 6, one can see that Sweden performs best (with an index of 100) while, for example, Poland

<sup>13</sup> MIPEX is produced by a consortium of 25 organizations. Among them are universities, research institutes, think-tanks, foundations, NGOs and equality bodies. The MIPEX Group is committed to improving the quality of debate on migrant integration policy in Europe. The first edition of MIPEX was published in 2004, and this is the one we use. MIPEX is produced biannually to track the progress of integration policies in Europe over time. MIPEX is led by the British Council and Migration Policy Group (MPG). MIPEX is freely accessible and can be found at: [www.integrationindex.eu/](http://www.integrationindex.eu/).

**Table 6. European countries by policy types (year 2004)**

	Immigrant focused policies (MIPEX by policy areas) (1)						General labour market policies and conditions (2)				
	Labour market access	Family reunion	Long-term residence	Political participation	Access to nationality	Anti-discrimination	Minimum relative to median wage	Strictness of employment protection (EPL)			Trade Union Density
								Collective dismissals	Regular contracts	Temporary contracts	
Austria	45	34	55	34	22	42	0	3.25	2.37	1.50	34.1
Belgium	75	61	74	57	71	75	0.51	4.13	1.73	2.63	52.9
Denmark	40	36	67	55	33	33	0	3.88	1.63	1.38	71.7
Finland	70	68	65	81	44	75	0	2.63	2.17	1.88	73.3
France	50	45	48	52	54	81	0.61	2.13	2.47	3.63	8
Germany	50	61	53	66	38	50	0	3.75	3	1.25	22.2
Greece	40	41	60	14	25	58	0.46	3.25	2.33	3.13	23.7
Hungary	40	50	50	29	36	85	0.48	2.88	1.92	1.13	18.2
Ireland	50	50	39	59	62	58	0.53	2.38	1.60	0.63	35.7
Italy	85	79	67	55	33	69	0	4.88	1.77	1.88	33.9
Luxembourg	45	50	48	84	45	56	0.41	..	..	..	42.1
Netherlands	70	59	66	80	51	81	0.45	3	3.05	1.19	21.3
Norway	70	66	72	86	39	54	0	2.88	2.25	2.88	55
Poland	25	66	67	14	45	46	0.43	3.63	2.06	1.75	17.4
Portugal	90	84	67	79	69	87	0.48	2.88	4.17	2.75	18.7
Spain	90	66	70	50	41	50	0.42	3.13	2.46	3.50	15.5
Sweden	100	92	76	93	71	94	0	3.75	2.86	1.63	77.3
Switzerland	75	43	51	55	44	33	0	3.88	1.16	1.13	19.6
United Kingdom	60	61	67	46	62	81	0.43	2.88	1.12	0.38	28.8

Sources: (1) Migrant Integration Policy Index (available online at: [www.integrationindex.eu/](http://www.integrationindex.eu/)).

(2) OECD Labour Force Statistics (available online at: <http://stats.oecd.org>)

(25) and Denmark (40) perform poorly. More generally, labour market access in the EU is, on average, only halfway to best practice. Migrants are partially eligible and can take up labour market integration measures that go only halfway to best practice.

'Family reunion' measures the country policy in terms of bringing families together. In particular, it measures how long it takes for a migrant to be *eligible* to sponsor a spouse, registered partner, minor or adult children and dependent relatives, for example grandparents. It also measures the administrative procedures and how easy it is to bring families together. In particular, is it a fair, transparent, free and short process? Can family members renew their permits and stay as long as the sponsor does? One can see that Sweden (92) and Portugal (84) have high index values while Austria (34) and Denmark (36) perform poorly.

'Long-term residence' measures how many years as a legal resident it takes for a migrant to be *eligible* to become a long-term resident and full 'civic citizen'. Again, it also measures if the process is transparent, free and short and if the application is refused or the permit withdrawn only if the migrant is found guilty of either fraud in trying to acquire it or of a serious crime. It also measures if the migrant has the same access to education and vocational training as nationals, and if they become ill, injured, pregnant or homeless, they can rely on social security, social assistance, healthcare and housing support. The countries with the most favourable policies are the Nordics (including Denmark), the Western Mediterranean, and the United Kingdom. Ireland (39), France and Luxembourg (48) have the lowest scores.

'Political participation' measures if a migrant has opportunities to participate in public life which conform to Europe's highest democratic principles. In particular, it measures if the state guarantees their *political liberties* to form an association, even a political one, to join political parties, and thus participate in civil society. It also determines if as a legal resident, the migrant can *vote* and stand for local elections, just like EU nationals. Policies in North and Western Europe are on average slightly favourable, while those in Greece and Eastern Europe are unfavourable (Poland (14) obtains the lowest scores).

'Access to nationality' measures how many years it takes for a migrant with legal residence to be *eligible* for nationality. It also measures if any of his/her descendants born in the country are dual nationals at birth. It also determines if being tied to the country by residence or by family are the sole criteria for becoming a national. It also measures if the migrant is allowed to choose whether or not to keep his/her original citizenship. From Table 6, one can see that eligibility for nationality has the lowest maximum and the lowest minimum score with respect to all the other dimensions. Most countries do not facilitate naturalization for first-generation migrants. European-born children most often face unfavourable additional requirements for becoming citizens in their country of birth. Most oaths and ceremonies do not involve requirements that can exclude migrants from participating or

receiving their citizenship. Partially insecure under the law, many naturalizing migrants can have their application refused or nationality withdrawn on many grounds, without any time limits. Only a few countries fully allow migrants to hold dual nationality.

'Anti-discrimination' measures the anti-discrimination law in each country that helps guarantee equal opportunities in economic, social and public life for all members of society, including migrants and their descendants. It also measures if the law punishes a wide range of actors who discriminate against a migrant in many ways because of their ethnic origin, race, religion or nationality, among other grounds. It also determines if the state helps the migrant to seek justice through strong *enforcement mechanisms*. Sweden (94) and Portugal (87) have high scores and this reflects the fact that the legal definitions of discrimination and the mechanisms to enforce them are slightly favourable across the European countries. A wide range of actors are punished for discriminating against migrants based on their race or ethnic origin.

## 6.2. Labour market policies

One of the problems with the integration policies described above is that they are endogenous in the sense that the lower is the employment rate of immigrants in a given country the more likely this country will target specific integration measures to increase its employment rates. In other words, there is an obvious endogeneity problem here since the policy formulation in different European countries is determined in large part by the characteristics and number of their immigrants. In order to avoid this problem, we also consider general labour market policies that are not specific to immigrants but still affect their employment outcomes. We consider three main policies in Europe: 'minimum wage', 'strictness of employment protection legislation' and 'trade union density'.

Using data from the OECD, we first collect for each European country the 'minimum wage relative to the median wage of full-time workers', that is, the ratio of minimum wages to median earnings of full-time employees – excluding overtime and bonus payments.<sup>14</sup> Indeed, for cross-country comparisons, data on minimum wage levels are further supplemented with data on average or median wages. Median rather than mean earnings provide a better basis for international comparisons as they account for differences in earnings dispersion across countries. Looking at Table 6, one can see that a country like France has a very high minimum wage relative to median wages while other countries like Luxembourg and Spain have a much lower ratio. Other countries, for example the Scandinavian countries, have no legislation on a national minimum wage. For these countries the value of the

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<sup>14</sup> A national minimum wage is the minimum rate which by collective agreement must be paid in all circumstances for certain work or to employees of a certain category.

indicator is set to 0.<sup>15</sup> Countries with high minimum wages should be less favourable to immigrants since the latter tend to be less educated and thus paid at the minimum wage. Indeed, higher minimum wages implies higher labour costs for employers and thus lower chance of being hired.

We then use the OECD employment protection indicators, which are compiled from 21 items covering three different aspects of employment protection: (1) ‘Individual dismissal of workers with regular contracts: this index incorporates three aspects of dismissal protection: (a) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements; (b) notice periods and severance pay, which typically vary by tenure of the employee; and (c) difficulty of dismissal, as determined by the circumstances in which it is possible to dismiss workers, as well as the repercussions for the employer if a dismissal is found to be unfair (such as compensation and reinstatement); (2) ‘Additional costs for collective dismissals’: most countries impose additional delays, costs or notification procedures when an employer dismisses a large number of workers at one time. This measure includes only additional costs which go beyond those applicable for individual dismissal. It does not reflect the overall strictness of regulation of collective dismissals, which is the sum of costs for individual dismissals and any additional cost of collective dismissals; (3) ‘Regulation of temporary contracts’: this index quantifies regulation of fixed-term and temporary work agency contracts with respect to the types of work for which these contracts are allowed and their duration. This measure also includes regulation governing the establishment and operation of temporary work agencies and requirements for agency workers to receive the same pay and/or conditions as equivalent workers in the user firm, which can increase the cost of using temporary agency workers relative to hiring workers on permanent contracts. It is important to note that employment protection refers here to only one dimension of the complex set of factors that influence labour market flexibility. These indices are synthetic indicators of the strictness of regulation on dismissals and the use of temporary contracts.<sup>16</sup>

All these indices range between 0 (least restrictions) and 6 (most restrictions). Looking again at Table 6, different countries have different employment protection legislations. For example, when considering the policy ‘individual dismissal of workers with regular contracts’, one can see that countries like Portugal and to a lesser extent the Netherlands have stricter legislations while countries like the United Kingdom and Ireland have very weak ones. If we now look at the legislation on

<sup>15</sup> Observe that wage floors can exist even in the absence of statutory minimum wages. For example, in Sweden, there exist personal contracts which are concluded between individual employees and employers specifying such minimum rate. An employer who pays rates below the minima incurs liability for breach of the collective agreement concerned. However, these agreements largely vary between economic sectors and depend on employer characteristics. ‘Negotiated’ wage floors are thus not considered here.

<sup>16</sup> For full details on the methodology and weights used to compile the indicators, go to: [www.oecd.org/dataoecd/24/40/42740190.pdf](http://www.oecd.org/dataoecd/24/40/42740190.pdf).

the ‘regulation of temporary contracts’, which is another important aspect of labour market flexibility, again the United Kingdom and Ireland have very weak legislations. This should not come as a surprise because these Anglo-Saxon countries are well known to have very flexible labour markets. On the other hand, countries like Belgium and to a lesser extent Italy and France have much more regulated labour markets. More flexible labour markets (like in the UK or Ireland) should be, in principle, more favourable to immigrants because it gives them more chance to obtain a job.

Finally, we consider ‘trade union density’, which corresponds to the ratio of wage and salary earners that are trade union members, divided by the total number of wage and salary earners (see Visser *et al.*, 2010). Not surprisingly, Scandinavian countries have very high rates of trade union density (for example, 77.3% in Sweden) while countries like France, Spain and Germany have much lower rates (8% for France, 15.5% for Spain and 22.2% for Germany), even though trade unions are very powerful. It is well documented that trade unions mainly defend the interest of their workers and thus immigrants, who are often ‘outsiders’, tend to be disadvantaged compared to the natives, the ‘insiders’ (Lindbeck and Snower, 1988).

Because of prejudices and discrimination, the main problem for immigrants is very likely to find a *first* job (whether they are new immigrants or second-generation immigrants) since once employed they can show their ability and thus, in principle, prejudices and discrimination should be lower. As a result, more flexible labour markets with lower minimum wages and lower trade-union density should be more favourable to immigrants because they allow them to find a first job more easily. In countries where the labour market is very rigid and trade union density very high, it is very difficult for immigrants to obtain a first job. Sweden, which has a very high trade-union density and a relatively rigid labour market, is a good example of such a case since immigrants have one of the lowest employment rates in Europe (see, e.g., Åslund *et al.*, 2010).

### 6.3. Analysis

We will now use the MIPEX scores, our indicators of minimum wage, strictness of employment protection legislations and trade union density to understand how *each* of these different policies affects the probability of being employed and how their interaction with ethnic identity impacts on employment outcomes of immigrants. Specifically, focusing on the sample of immigrants only, we will assign to each individual the score of the country in which he/she resides in terms of the different policies.<sup>17</sup> Our regression analysis results are contained in Tables 7 and 8.

<sup>17</sup> Both the MIPEX index and our selected indicators of labour market policies and conditions are not available for Ukraine. This country has thus been eliminated in our analysis on policy issues.

**Table 7. Ethnic identity, employment and integration policies (probit estimation results – immigrant sample)**

Dep. Var.: Probability to be in paid work	
Ethnic identity	-0.1298*** (0.0424)
Access to nationality	-0.0023 (0.0017)
Labour market access	0.0007 (0.0011)
Family reunion	0.0053*** (0.0013)
Long-term residence	0.0004 (0.0015)
Political participation	-0.0034*** (0.0007)
Anti-discrimination	-0.0005 (0.0010)
Ethnic identity * Access to nationality	-0.0002 (0.0017)
Ethnic identity * Labour market access	0.0020*** (0.0007)
Ethnic identity * Family reunion	-0.0025** (0.0012)
Ethnic identity * Long-term residence	0.0009 (0.0009)
Ethnic identity * Political participation	0.0017*** (0.0006)
Ethnic identity * Anti-discrimination	-0.0004 (0.0011)
Second generation	0.1488** (0.0592)
Age	0.1016*** (0.0033)
Age <sup>2</sup>	-0.0012*** (0.0001)
Education	0.0105*** (0.0024)
Female	-0.2110*** (0.0208)
Years since arrival	0.0273* (0.0149)
Region of origin dummies	Yes
Observations	2,879
Pseudo- $R^2$	0.188

*Notes:* Marginal effects and standard errors clustered at the country (of destination) level (in parentheses) are reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

If we first look at the direct impact of integration policies on employment outcomes of immigrants, Table 7 shows that only ‘family reunion’ policies seem to have a positive and significant impact on employment outcomes. However, when we interact these policy variables with the strength of ethnic identity, then we see that ‘labour market access’ policies seem to be beneficial in decreasing the penalty

**Table 8. Ethnic identity, employment and labour market policies (probit estimation results – immigrant sample)**

Dep. Var.: Probability to be in paid work	
Ethnic identity	-0.2261*** (0.0736)
Minimum wage relative to median wage	-0.0149 (0.1322)
EPL – Collective dismissals	0.0708 (0.0440)
EPL – Regular contract	-0.0301 (0.0275)
EPL – Temporary contracts	-0.0005 (0.0185)
Trade Union density	-0.0022** (0.0009)
Ethnic identity * Minimum wage relative to median wage	0.0730* (0.0407)
Ethnic identity * EPL – Collective dismissals	0.0203 (0.0274)
Ethnic identity * EPL – Regular contract	0.0319** (0.0127)
Ethnic identity * EPL – Temporary contracts	0.0049 (0.0098)
Ethnic identity * Trade Union density	0.0006 (0.0007)
Second generation	0.0854 (0.0696)
Age	0.1011*** (0.0038)
Age <sup>2</sup>	-0.0012*** (0.0001)
Education	0.0099*** (0.0024)
Female	-0.2102*** (0.0228)
Years since arrival	0.0130 (0.0166)
Region of origin dummies	Yes
Observations	2,836
Pseudo- $R^2$	0.181

*Notes:* Marginal effects and standard errors clustered at the country (of destination) level (in parentheses) are reported.

\*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

for those with a strong ethnic identity. This may confirm some theoretical mechanisms presented in Section 3. Indeed, if immigrants with a stronger ethnic identity are more likely to be discriminated against, then, in countries where the labour market legislation protects immigrants against some type of discrimination, the employment prospects will be better for these immigrants. On the contrary, for the ‘family reunion’ policy, which had a positive and significant impact on employment outcomes, the cross effect is negative. This could indicate that a richer network of social contacts in the host country (relatives and friends) might be helpful in finding

a job (for example because it increases the information about job opportunities), but that such externalities are hampered when strong ethnic feelings are preserved.

A more surprising result is the negative impact of ‘political participation’ policies on immigrants’ employment prospects. This variable is certainly more ‘noisy’ than other policy variables but it could be the case that allowing immigrants to participate in local elections triggers negative reactions from natives, which leads to more discrimination in the labour market. Interestingly, if we look at the cross effects, ‘political participation’ is the only variable associated with a significant and positive one. This seems to suggest that this type of integration policy might positively affect the relationship between ethnic identity and employment probability, only for those immigrants who have an extreme identity.

Let us now focus on labour market policies, which are, in principle, ‘exogenous’ to immigration patterns. The results are shown in Table 8 and confirm the intuition we had before. Indeed, more flexible labour markets are, in general, favourable to immigrants. One can see from Table 8 that most labour market policy variables are associated with a negative estimated effect, although statistically significant only for ‘trade-union density’. In other words, more flexible labour markets that have a low trade-union density like the United Kingdom or Ireland are more favourable to immigrants in terms of employment. This is confirmed by Figure 1 where UK and Ireland have relatively high ratios of employment for the immigrants while Scandinavian countries have much lower ones. Interestingly, when we interact these labour market policies with ethnic identity, all signs become positive, meaning that more regulated labour markets tend to alleviate the employment penalty of having a strong identity. In particular, the effect is statistically significant for minimum wage and employment protection regarding individual dismissal of workers with regular contracts. This could be an indication that tough employment legislations reduce labour market discrimination so that immigrants, even with stronger identity, are protected in terms of employment. So the general picture here is that more flexible labour markets (like the United Kingdom and Ireland) could help immigrants to access the labour market but do not protect those who have a strong ethnic identity.

## 7. CONCLUDING REMARKS

The Lisbon Strategy (named after the European meeting in Lisbon in the spring of 2000) states that by the year 2010, the EU shall become the most competitive and dynamic knowledge-based economy in the world, with the possibility of sustainable economic growth, with more and better work opportunities and a higher degree of social solidarity. It is crucial for the chances of the EU reaching this goal that more people become employed. The problem is that many people are still outside the labour market, in particular those who have a foreign background. The integration of these individuals is thus crucial for reaching the Lisbon goals and European

integration policy must play a more important role in Europe. The integration of citizens of third countries who live and work in the EU has therefore become an increasingly important issue in the last few years. During the council meetings (legal and domestic questions) in 2002, it was decided that a network of national contact points within the area of integration should be created and this was confirmed during the council meeting in June 2003 and the commission was appointed the task of creating yearly reports on migration and integration. In its message on immigration, integration and employment, the commission is trying to get an overall grip of the issue of integration. The first issue of the handbook on issues of integration for decision-makers and those who work with integration issues in practice was published in November 2004 (*Handbook on Integration for Policy-makers and Practitioners*). Integration is a major issue within several of the EU policy areas. If there is a successful integration of immigrants on the labour market in an efficient and responsible way, this would be an important contribution to the Lisbon goal.

There is thus a *common agenda (or EU directive) for integration policy* – a framework for the integration of citizens of third countries in the European Union – but there is *no common integration policy* in Europe (Zenou, 2009). There is, however, a great willingness to carry out a common *migration policy* in Europe. Indeed, on 16 October 2008, all presidents and prime ministers from the EU have signed the European pact for immigration and asylum which contains commitments within the following areas: legal immigration, illegal immigration and returning people, border control, asylum and partnership with third countries and the promotion of synergies between migration and development.

In the present paper, we focus on an important aspect of the migration and integration policy in Europe: the labour market outcomes of first and second generation immigrants. In particular, we analyse the relationship between ethnic identity and employment outcomes of non-EU immigrants in Europe. As mentioned in the Introduction, the riots in France in November 2005 combined with the riots in England (in Oldham, Leeds, Burnley and Bradford) in the summer of 2001 had in common that most of the rioters belonged to ethnic minority groups: children of immigrants from Arab and African countries in France, young British Asian men in England. The common explanation put forward was the high unemployment rates experienced by these groups and their lack of cultural integration in their host country. It is therefore important to study if indeed there is a relationship between integration (where ethnic identity could measure some aspects of it) and labour market outcomes of immigrants in Europe.

Our results suggest that there is in fact a penalty to be paid in terms of employment for immigrants with a strong identity in Europe. To be more precise, a one standard deviation increase in our composite indicator of ethnic identity (encompassing attachment to religion, attachment to traditions and language spoken at home) is, on average, associated with an employment penalty of about 3.7%. Being a first-generation immigrant leads to a penalty of about 17% while second-generation

immigrants have a probability of being employed that is not statistically different from that of natives. These results seem to indicate an economic integration process of immigrants in Europe since second-generation immigrants have a higher probability of being employed than their parents and, compared to natives, there does not seem to be any difference in terms of employment. However, when they have a strong identity, second-generation immigrants have a lower chance of finding a job than natives.

If we look more carefully at what drives these results in terms of ethnic identity, we find that speaking a language at home different than that of the majority is harmful in terms of employment. Moreover, a strong attachment to religion has also a negative impact on employment while a strong attachment to traditions and customs does not seem to play a significant role. This is not that surprising given the presence of a rather important Muslim population in Western European countries as a consequence of voluntary immigration of workers coming from the Middle East, North Africa or South Asia.

Our analysis also reveals that integration and labour market policies aiming at improving the employment prospects of non-European immigrants can be successful but their results vary depending on the strength of identity of the immigrants. We find that more flexible labour markets tend to be, in general, more favourable to immigrants. In particular, more flexible labour markets that have a low trade-union density like the United Kingdom or Ireland are more favourable to immigrants in terms of employment than, for example, Scandinavian countries that have more rigid labour markets. However, this is no longer the case if immigrants have a strong ethnic identity.

In this respect, our analysis provides valuable insights into the political debate on immigration in Europe. Although we are fully aware that these issues are complex and other aspects are at work, our results suggest that a largely under-investigated issue, that is, the relationship between ethnic identity and immigrants' employment prospects, might be an important factor to be considered for policy design in Europe.

## Discussion

**Andrea Ichino**

University of Bologna

This paper explores a very important set of problems, perhaps the most important one for a peaceful future in Europe. It is also a very courageous paper because these problems do not have easy answers. Perhaps they do not have 'any' kind of answer. And, unfortunately, the data that the authors have at their disposal are not rich enough to get us closer to these answers, if they exist. As a result, while on the

on the one hand I admire the authors for trying to tackle these issues, on the other hand I would have hoped to learn more from reading this paper.

The first claim of the authors is that there is a large penalty in terms of employment probability for being a first-generation immigrant with a strong ethnic identity, measured by a composite indicator that encompasses attachment to religion, attachment to traditions and language spoken at home. The penalty is weaker for second-generation immigrants, but even in their case a very strong identity seems to be associated with employment losses.

The authors are the first to recognize that it is hard to sell this result as a causal statement. They do propose an instrumental variable strategy that should support this interpretation, but they do not seem to be very convinced by it and indeed this strategy fails to be completely convincing for the usual reasons. However, independently of whether the authors can or cannot identify a causal relationship of this kind (i.e. ethnic identity causes employment losses among immigrants), it is not clear why the authors (and European policy-makers to whom this article is directed) should be interested in this causal relationship. Are the authors claiming that we should manipulate the ethnic identity of immigrants, possibly making it weaker, in order to improve their employment outcomes? This seems an unlikely, perhaps even dangerous, policy goal for Europe.

It is obviously a desirable goal to improve the employment opportunities of immigrants without making those of natives worse (a problem that the authors do not seem to consider), but it is at least debatable whether it would be a good idea to achieve this goal by manipulating the identity of immigrants. If this is true it is not clear why we should be interested in the specific causal link (from identity to employment outcomes) addressed by the authors.

Perhaps more interesting is the question of how to improve the employment opportunities of immigrants independently of their ethnic identity (and without making those of natives worse). Similarly interesting would be to know whether an improvement of employment opportunities would have a collateral effect on ethnic identity, and of which kind. Could we hope that better employment opportunities for immigrants and natives would reduce the clash of identities that increasingly generates problems in European societies? Note that this question reverses the causality link with respect to the one explored by the authors. And this direction of causality is also more interesting because governments have tools to manipulate employment probabilities while it is not clear how the authors think ethnic identities should be manipulated, which would be the natural thing to do after having estimated the causal impact of reducing identity on the employment probability of immigrants.

Indeed, in the second part of the paper the authors consider a different question and study how country-specific labour market policies affect the employment probability of immigrants at different levels of identity. If the data were rich and informative enough this would be, in my opinion, the most interesting contribution of

the paper. But the authors are the first ones to recognize that it is hard to give any causal interpretation to their estimates, given the difficulty of controlling for confounding factors and given the likelihood that policies themselves are endogenous with respect to the presence and behaviour of immigrants.

But even if we were ready to accept a causal interpretation of the authors' estimates of these effects, it is hard to know what to make of them. Their main result, on this issue, is that flexible labour markets facilitate the employment integration of immigrants, but not when the identity of immigrants is strong. Unfortunately, it is not clear from reading the paper why it should be so.

At the end of the day, I can only repeat myself in admiring the authors for having had the courage to address a crucial set of questions for Europe, but unfortunately, despite the tremendous effort of the authors, I have the impression that this paper leaves us still far away from finding convincing answers.

## Etienne Wasmer

### Sciences Po

It is a great pleasure to comment once again on a paper, which has evolved many times.

The authors undertook a large number of revision rounds and should be praised for this, and also for addressing this particular set of topical issues (the effect of religiosity and more generally of adhesion to cultures and norms) on employability and labour market outcomes, although with a parcimonious use of data.

In this paper the bottom line is that ethnic identity matters or at least is correlated with employment outcomes. In an earlier version of this paper the authors had made a nice distinction between identification with culture of origin and with majority culture, through providing a two dimensional 2x2 table listing both original culture and identification along side four cells on majority culture, according to intensity and under each of four headings: Assimilation, Radicalism/Separation, Marginalization, and Integration. Unfortunately, this table disappeared and the discussion has been shortened a great deal.

The authors provide us with a set of conclusions. First, and in that they are fairly optimistic, integration and employment outcomes are generally much improved for second generation immigrants compared to first generation immigrants: some convergence does occur. Second, adhesion to culture has a negative impact on labor market outcomes. Third, integration policies have some impact on immigrant employment outcome, although this is somewhat limited. A fourth and last conclusion is that integration policies do not seem to interact a great deal with ethnic identity.

On the surface, this looks good and one would be tempted to ask for a more detailed analysis of the various dimensions of labour market outcomes: e.g. types of contracts for immigrants compared to natives, relative wages, human capital/education, and occupations. This is absent here.

In an earlier version, ethnic identity was conflated with religiosity. In the Madrid panel discussion, based on several tables from the International Social Survey Program, I had made the observation that migrant religiosity was very much correlated with country of origin. Since the country of origin was also correlated with social capital and human capital, it was not at all clear what the authors might deduce from a negative association between religiosity and employment outcomes.

In the current version the authors have improved their measure of ethnic identity, but unfortunately these concerns have not entirely disappeared.

This paper is therefore an interesting first piece of evidence on highly sensitive issues. The authors are limited by data availability, identification issues which they acknowledge in various parts of the paper. If anything, they should try to improve their data collection efforts in order to tell us what is truly the causal effects on labor markets outcomes (assimilation of migrants) and how one can bridge the available statistics and the mechanisms they are after.

## Panel discussion

Luigi Pistaferri questioned whether the effect of ethnic identity on the employment gap between immigrants and the host country population was correctly identified in the paper. He noted it is important to account for other observable characteristics, which may be correlated with ethnic identity such as, differences in language, skills and education. Carlos Trucharte agreed with Luigi Pistaferri's suggestion that the methods employed in the discrimination literature could be very useful in this paper.

Fabrizio Perri emphasized the importance of understanding the economic and social outcomes in the host country, which emanate from differences in the country of origin of the immigrants. He pointed out that the cohort of new immigrants may be very different to the composition of past immigrant inflows. The cultural identity gap of new immigrants could be much greater than in the past and this will influence the rate at which the second generation of the new immigrants assimilate into the host country. Integration policies would have to take this into account.

Morten Ravn suggested an interesting area of research is the study of underemployment of immigrants in Europe. He had the impression that in many European countries immigrant's jobs do not correspond to their qualifications and as a result European countries lose out on human capital from this type of discrimination. Morten Ravn wondered about how meaningful is the definition of second-generation immigrants.

Juan Jimeno believed it was very important to control for interactions between immigrants' country of origin and the host country. He suggested that to fully understand the interaction effects it was necessary to focus on a smaller sample of countries and specific groups of immigrants.

Jerome Adda commented that the increased integration of second-generation immigrants compared to the first generation could be partly attributed to a composition effect, whereby a fraction of first-generation immigrants who want to eventually return to their home country invest very little in integrating in the host country and maintain their cultural traditions.

Georges de M enil pointed out that the ratio of immigrant employment to total employment is a limited measure of integration. It is important to also consider the rate of employment of immigrants as a percentage of total immigrants and within ethnic group employment rates. Richard Portes remarked that labour market policies are in part determined by the importance of immigrant communities in the national labour market. He believed it was important the authors address this issue of labour market policy endogeneity.

Giuseppe Bertola highlighted previous research that shows that ethnic identity and religion matter for economic behaviour and believed this paper was about the interaction of the two. He remarked, however, that these factors are highly correlated with many other immigrant worker characteristics and this makes policy conclusions very difficult.

Refet G urkaynak emphasized that it is difficult to determine what are the appropriate welfare and policy conclusions because of the limited information on whether non-working immigrants are unemployed, discouraged or do not want to work. Hans-Werner Sinn remarked that lower employment in immigrants in some Western European countries may reflect greater inclusion of immigrants in the labour market as they become entitled to welfare transfers after working for a certain period of time.

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