

# The Labor Market Impact of a Taxi Driver's license<sup>†</sup>

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June 8, 2023

## Abstract

We study the economic effects of gaining access to the taxi labor market. Comparing individuals who pass the necessary written exams for a taxi license with those who have not yet done so, we find that immigrants increase their monthly earnings by nearly 50 percent between 1 and 3 years later, reducing reliance on social insurance programs. Natives experience smaller benefits at approximately 10 percent. Recently arrived immigrants reap the largest benefits, suggesting their outside options are limited, leading to a greater impact from taxi driving on their earnings.

**Keywords:** Taxi labor market; Driver's licenses; Immigrant-native earnings gaps

**JEL-codes:** J15; J22; J24; J60; J61

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<sup>†</sup>We thank Olof Åslund, Mats Hammarstedt, Helena Holmlund, Håkan Selin, Sébastien Willis, as well as seminar participants at Linneaus University, IFAU, and Uppsala University for valuable comments. The authors acknowledge funding from Handelsbankens Forskningsstiftelser (grant P2017-0167:1) and from IFAU (grant 198/2017).

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# 1 Introduction

Immigrants in developed countries generally have weaker labor market outcomes than their native counterparts (Fasani et al., 2022). Yet, despite facing overall challenges in the labor market, certain sectors and occupations tend to have very high shares of immigrants among employees. For example, in Sweden, immigrants make up 47 percent of taxi drivers and 48 percent of bus drivers (Statistics Sweden, 2017). This raises the question of what role these jobs – service sector occupations with low formal qualification requirements – play for the employment of immigrants. What would be the labor market effect of expanding these sectors or offering greater access to them?

This paper studies the importance of access to the taxi labor market for the economic outcomes of both immigrants and natives in Sweden. Examining the impact of access to particular occupations is made difficult by the fact that access is rarely determined for individual occupations. Moreover, it is rarely observed nor easy to define whether an individual has access to a particular labor market. To circumvent this issue, we use confidential and previously unexploited administrative data covering all written exam results for the taxi driver’s license in Sweden between 2004 and 2017. These data allow us to clearly define access to the taxi driving labor market on an individual level based on whether or not an individual has passed the requisite written exams. We combine data on the precise date of passing exams for over 25,000 test takers with high-frequency administrative data on individual labor market outcomes, as well as yearly data on usage of social insurance systems such as welfare benefits and unemployment insurance.

Our empirical strategy uses difference-in-differences and an event-study design. Our main specifications focus on individuals before and after they gain access to the taxi driver labor market and compare them to a sample of individuals who have not yet gained access, following Angelov et al. (2016) and Kleven et al. (2019). We also replicate our results using the method of Borusyak et al. (2021), which takes into account recent discoveries about potential sources of bias in event-study estimation.

We begin our analysis by using sector-specific employment spell data to estimate how passing the written taxi license exams affects employment and income derived from the taxi sector.<sup>1</sup> Our estimates indicate an immediate positive effect. Six months after passing written exams, immigrants and natives display large increases in the likelihood of employment in a taxi firm. One year later, approximately 60 percent of individuals in both groups have been employed by a taxi firm for at least one month, whereas pre-treatment averages are stable at zero. Over the same period, monthly taxi incomes increase by approximately €900 for immigrants and €600 for natives.<sup>2</sup> Thus, passing the necessary written exams for the taxi driver’s license impacts the likelihood of working as a taxi driver.

Selection into taxi driving is not random. Before passing written taxi exams, immigrants in treatment and control groups display parallel trends until 12 months before treatment, after which the treatment group’s income declines significantly. This divergence may be due to several factors, such as separation from prior jobs, anticipation effects leading to lower labor supply, or investment costs related to preparing

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<sup>1</sup>Obtaining a taxi driver’s license requires passing three written exams as well as a driving test. We only observe written exam results, while data on driving test results or ultimate ownership of taxi drivers’ licenses are restricted by law and not allowed for research. See Section 2.3 for additional details.

<sup>2</sup>We use the exchange rate €1 = 10 SEK throughout, which was the approximate average exchange rate in 2017.

for exams and job search limiting labor supply. Pre-treatment patterns differ somewhat for natives, who experience more pronounced declines in income levels prior to passing written taxi exams. In percentage terms, however, pre-trends are similar for both groups. We discuss the possible causes of these diverging pre-trends and trace out their implications for interpreting our post-treatment estimates, arguing that if anything pre-trend patterns would bias our estimates towards zero. A separate test also indicates that our results are unlikely to be explained by an Ashenfelter's-dip type mechanism.

Our main results regard the impact of access to the taxi labor market on total monthly employment and income. While outcomes were relatively similar across origin groups when looking at taxi sector activity, differences in outside options in the labor market for natives and immigrants may lead the overall labor market effects to differ. For example, descriptive statistics indicate that immigrants are more likely to enter the taxi labor market from unemployment, while natives are more likely to have been employed. Our results are consistent with this. 36 months after passing exams, immigrants' overall employment rate increases by 20 percentage points, while it increases by 11 percentage points for natives. Interestingly, the effect on incomes across groups is larger. For immigrants, we observe a substantial and stable income increase after passing the written taxi exams. Between 12 and 36 months after gaining access to the taxi labor market, their monthly incomes are at least €500 higher. When estimating the relative increase in incomes compared pre-taxi averages, those with access to the taxi labor market have over 40 percent larger monthly incomes between 12 and 36 months after treatment. Natives also experience a rapid increase in monthly incomes after passing taxi exams. However, estimates of natives' incomes between 12 to 36 months after treatment indicate smaller increases of approximately €150 SEK per month compared to the control group. This represents an increase of roughly 10 percent. Thus, natives who enter the labor market can rapidly reverse their prior labor market decline, reaching higher incomes than the control group. Nevertheless, the overall effect is smaller than for immigrants.

Having observed positive income developments for individuals who pass written taxi exams, a relevant question is whether there is an impact on the usage of social insurance programs. To measure this, we create a simple measure that takes value one if an individual does not receive any means-tested welfare or housing transfers in a given year. We also study the usage of unemployment insurance (UI). For both natives and immigrants, the likelihood of receiving UI benefits increases in the year before passing taxi exams. This result is consistent with the declines in income and employment rates observed during this period. However, both groups quickly reverse this trend after treatment and become less likely to use UI after 3 years. We find similar results for means-tested transfers, that are more pronounced for immigrants. Immigrants are 12.5 percentage points less likely to receive any transfers after 3 years, representing a 25 percent decrease over the mean two years pre-treatment.

These results indicate that the taxi labor market has a more significant impact on immigrants than native-born Swedes, which is evident both in levels as well as in relative terms. We argue that our results are in line with immigrants having weaker outside options in the labor market, making access to taxi driving a more pivotal outcome than for natives. In line with this, we find that longevity in the occupation differs between groups. Using data on the largest source of income, we find that immigrants who pass the taxi exams show no decline in taxi driving as their main occupation throughout our sample period. Thus,

we find no indication that immigrants use taxi driving as a stepping stone to other types of occupations within our time frame. Natives, by contrast, display a peak in taxi driving as their main occupation in the first 12 months after passing exams, after which it decreases gradually. Taxi driving for immigrants therefore appears to be represent more stable and long-standing shift in labor market status, while it is a more temporary occupation for natives.

We next investigate to what extent our results reflect differences in personal characteristics. Within the sample of immigrants, we find that the returns to taxi labor market access are substantially larger among those who have arrived relatively recently. For recent arrivals (3–5 years in Sweden), the effect on monthly income is twice as large as for immigrants who have been in Sweden for longer than five years. Next, investigating the heterogeneous effects of education, we report two findings. First, earnings effects are much larger for immigrants with a post-secondary degree than for similarly educated natives. Second, while highly educated immigrants earn more than low-educated immigrants, the pattern is reversed among natives. These results indicate that the taxi labor market has larger benefits for immigrants in part because it can absorb individuals with weak outside options, either due to having less experience in Sweden or individuals who find it challenging to find work with higher formal requirements.<sup>3</sup>

This study is, to our knowledge, the first to estimate the effects of a taxi driver’s license on labor market outcomes. The economics literature on taxi drivers has often tested theories of labor supply (Camerer et al., 1997; Farber, 2005). Häckner and Nyberg (1995) and Cairns and Liston-Heyes (1996) study the economics of taxi market regulation theoretically, while Ohlson (2008), SOU (2010), and Slavnic and Urban (2018) investigate the consequences of the Swedish taxi market deregulation of 1990. Several studies focus on the effects of car ownership on labor market outcomes (Ong, 2002; Raphael and Rice, 2002; Gurley and Bruce, 2005; Baum, 2009). Gautier and Zenou (2010) focus specifically on effects for ethnic minorities. Moreover, recent research has studied the effects of allowing undocumented immigrants to obtain a regular driver’s license (Amuedo-Dorantes et al., 2020; Cho, 2022). These studies indicate positive effects, partly related to the ability to commute longer distances. There is also a growing literature on the role of ride-hailing services on labor market outcomes (Berger et al., 2018) and the role of work-hour flexibility (Angrist et al., 2021). Adermon and Hensvik (2022) investigate the effects of gig-work experience on the job search, and Ek et al. (2020) studies the importance of low-skilled jobs for future earning trajectories for newly arrived refugees in Sweden.

Our study also relates to the literature on occupational licensing, as the taxi driver’s license acts as an occupational regulation that raises barriers to entry and enforces minimum standards among workers. In the US and EU, approximately one-quarter of workers hold an occupational license. Several studies investigate the role of occupational regulations, including their effects on immigrants (Chapman and Iredale, 1993; Kugler and Sauer, 2005; Gomez et al., 2015; Sweetman et al., 2015; Tani, 2017). Brücker et al. (2021) find that immigrants who can validate their foreign qualifications and access regulated labor markets experience positive employment outcomes.

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<sup>3</sup>There are several reasons for which the taxi labor market may be particularly significant for individuals with weak labor market options, such as having very free wage setting and lower employment protection, likely contributing to low barriers to entry.

## 2 Background and institutional setting

### 2.1 Immigration to Sweden

Figure 1 shows two trends for the immigrant composition in Sweden between 1985 and 2018. First, Sweden has had a high inflow of immigrants in the last decades and the stock of foreign-born has steadily increased from around 8 percent in 1985 to 19 percent in 2018. Second, there has been a clear shift in the composition of immigrants over time, where non-Western immigrants made up 36 percent of the immigrant stock in 1985, and 78 percent in 2018.

*Figure 1: Foreign-born in Sweden*

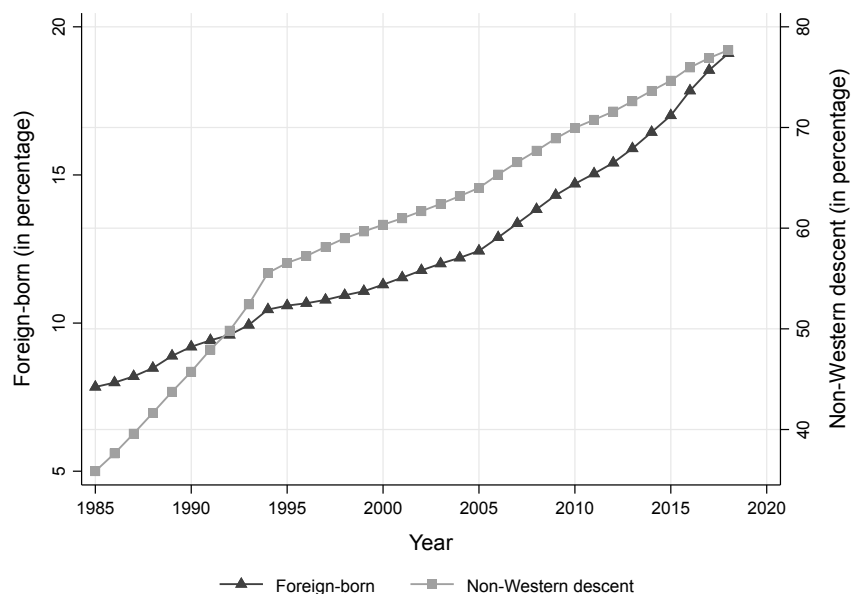
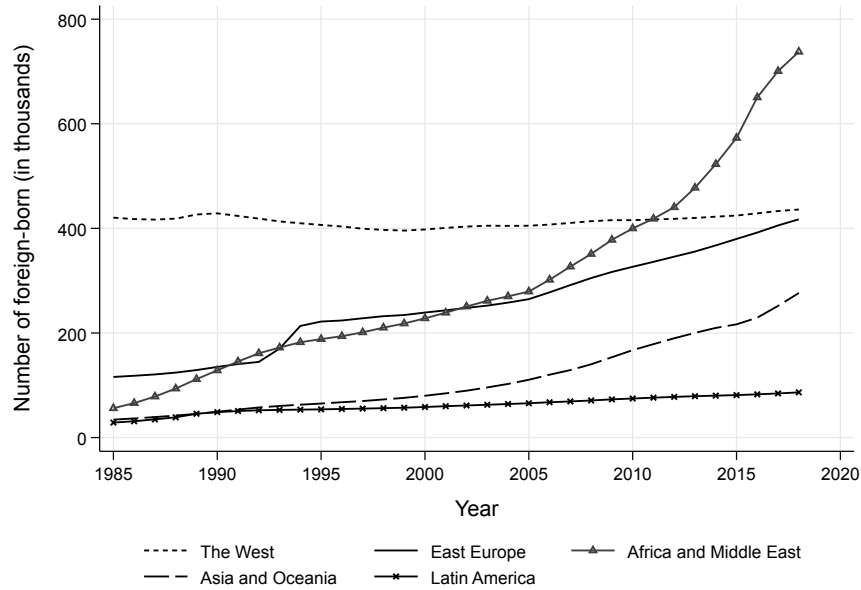


Figure 2 shows that the number of immigrants from Africa and the Middle East has increased the most since 1985 and that it is the largest immigrant group in 2018 (constituting 38 percent of the foreign-born population in Sweden). Within this group, the main source countries for the immigrant inflows in the 1980s and 1990s were Iran, Iraq, Turkey, and Lebanon. During the 2000s and 2010s, there was an increased inflow from primarily Iraq, Afghanistan, Somalia, Eritrea, and Syria. As is further discussed in Section 3, Africa and the Middle East is also the main source region for immigrant taxi drivers in Sweden. Figure 2 furthermore shows that the group that has increased second most during the period 1985–2018 is East Europe, where there are two trend shifts. First in the mid-1990s when there was a large spike in asylum seekers from former Yugoslavia, and second in the mid-2000s with the expansion of the European Union (increased labor immigration from primarily Poland). Immigration from Asia and Oceania has mainly been coming from Thailand, China, and India, while Chile is the dominant source country for Latin America.

Figure 2: Regional origin of foreign-born in Sweden



## 2.2 The taxi market

Roughly half of the taxi drivers in Sweden are foreign-born and its workforce has the eighth highest share of foreign-born individuals as of 2019. This statistic is in line with other high-income countries. In Canada, half of the taxi drivers were foreign-born in 2006 (Xu, 2012), while 1 in 7 taxi drivers in the UK is from Pakistan alone (Dawn, 2013). As shown in Table 1, being a taxi driver is the 20<sup>th</sup> most common profession for foreign-born men in Sweden in 2019.

Along with the development in many other OECD countries (Bekken, 2005), the labor market for taxi drivers was deregulated in Sweden in 1990 (Swedish Competition Authority, 2018; Slavnic and Urban, 2018). This deregulation meant that the limit on the total number of taxi cars was removed along with price regulations. The reform intended to increase competition in the market, but it also introduced stricter requirements for obtaining a taxi driver's license. Since the deregulation in 1990, both the number of taxi drivers and the fraction of foreign-born taxi drivers has increased. There were over 17,000 registered taxi cabs in Sweden in 2016, up from 12,700 in 1990. The Stockholm region is the largest single market, with nearly 7,000 registered taxi cabs.

Demand for taxis comes from three types of clients: business, private, and publicly procured services such as medical and school transports. Publicly procured transports typically compose half of taxi firms' incomes (Svenska taxiförbundet, 2017). Even though the number of taxi cars and drivers has increased since 1990, there has been an increased consolidation in the market with fewer and relatively bigger taxi companies (Swedish Competition Authority, 2018; Svenska taxiförbundet, 2017). Many taxis are connected to "brand name" firms that act as franchises. Smaller firms, often owning only one or two taxis, can pay a fee to be connected to the brand name. By paying a fee and following the franchise firm's guidelines, they

*Table 1: Most common occupations for foreign-born men in Sweden in 2019*

| Occupation                                     | Foreign-born<br>men | Total<br>men | Foreign-born<br>share |
|--|---------------------|--------------|-----------------------|
| Warehouse and terminal staff                   | 19241               | 68379        | 28%                   |
| Restaurant and kitchen helpers                 | 16943               | 28190        | 60%                   |
| Cleaners and helpers in offices, hotels, etc.  | 14964               | 20726        | 72%                   |
| Home-based personal care and related workers   | 12404               | 20399        | 61%                   |
| Software- and system developers                | 12142               | 65773        | 18%                   |
| Bus and tram drivers                           | 11912               | 20639        | 58%                   |
| Machine-tool operators                         | 9869                | 43093        | 23%                   |
| Cooks and cold-buffet managers                 | 9568                | 20616        | 46%                   |
| Heavy truck and lorry drivers                  | 7966                | 53590        | 15%                   |
| Building caretakers                            | 6711                | 34995        | 19%                   |
| Personal assistants                            | 6550                | 18834        | 35%                   |
| Woodworkers, carpenters                        | 6348                | 45886        | 14%                   |
| Assistant nurses, home care and elderly homes  | 6296                | 12401        | 51%                   |
| Primary school teachers                        | 5807                | 27960        | 21%                   |
| Other service workers not elsewhere classified | 5780                | 16428        | 35%                   |
| Shop sales, groceries                          | 5729                | 30054        | 19%                   |
| Vehicle mechanics and repairers                | 5391                | 32240        | 17%                   |
| Shop sales, specialty stores                   | 5268                | 43135        | 12%                   |
| Commercial sales representatives               | 5216                | 64397        | 8%                    |
| Taxi, car, and van drivers                     | 5182                | 9588         | 54%                   |

*Note: Occupations are based on 4-digit SSYK 2012 occupational codes, which are the occupational codes used by Statistics Sweden. SSYK 2012 is based on ISCO-08. Occupations are ranked in descending order according to the frequency of foreign-born men. Source: Statistics Sweden.*

can connect to the franchise’s centralized booking services in which clients reserve taxis via telephone or apps. In 2016, the most common type of taxi firm owned a single taxi cab (4,459 firms), while there were 2,315 active limited liability corporations in the sector (Svenska taxiförbundet, 2017).

A majority of taxi drivers are paid on commission – their pay is thus determined as a share of the revenue they generate. While there are collectively bargained agreements negotiated between unions and employers, these are voluntary for employers to adopt. Employers who do not adopt the collectively bargained agreement may set compensation freely, with no minimum wage requirement. A typical example is that a driver may keep 50 percent of their revenue, sometimes combined with an hourly wage.

## 2.3 Becoming a taxi driver

A taxi driver’s license is required to work as a taxi driver. Obtaining the taxi driver’s license requires that the individual (i) is at least 21 years old, (ii) has held a standard driver’s license<sup>4</sup> for at least two years without any revocation during that period, (iii) completes three written exams, and (iv) completes a road driving test. The individual must also pass the requirement on obedience to the law and medical requirements.

The written taxi exams in step (iii) must be completed within six months of each other but in no particular order. The exams cover three different subjects: (i) navigation and map reading, (ii) safety and good driving behavior, and (iii) laws and regulations (Swedish Transport Agency, 2021). There is a small fee of approximately \$30 USD per test, and exams are relatively easy and fast to schedule. In our data, conditional on passing all three tests, the average time from first exam attempt to passing the last exam was 3 months. We note that this does not include the time it takes in order to study for the exams.

In addition to the written exams, a driving test must be passed to obtain a taxi driver’s license. The driving test is largely similar to that for a regular driver’s license, and it also includes tests of the ability to navigate using GPS and the ability to ensure passenger safety. As we do not observe information on driving tests, nor on whether individuals obtain the final taxi driver’s license, it is reassuring that the road test is very similar to a regular driver’s license road test. Our prior is that this step is not a significant barrier to obtaining a taxi driver’s license. Below, we will test the relationship between passing the written exams and indicators of actually working in the taxi sector, a measure of having passed all tests and obtained the taxi driver’s license.

A foreign driver’s license issued within the EEA fulfills requirement (ii) if the individual has sufficient documentation from the issuing agency and can show that it has not been revoked during the last two years. A driver’s license issued in a non-EEA country is not valid as a driver’s license when applying for a taxi driver’s license. Hence, for a majority of immigrants that we define as non-Western, a Swedish standard driver’s license will be required in order to drive a taxi.

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<sup>4</sup>This corresponds to types *B* or *D* in the Swedish driver’s license nomenclature.



### 3 Data and descriptive statistics

We use data on all scores for the written taxi driver’s license exam in Sweden between 2005 and 2017 provided by the Swedish Transport Agency. For each exam taken, we observe a pseudonymized identifier for the individual taking it, a test center identifier, the type of exam taken, the score, and whether or not the individual passed the exam. The data on written exam scores are matched at the individual level to complete population register data on demographic variables (LISA) and linked employer-employee data (RAMS) provided by Statistics Sweden. For each individual, we have information on the duration of an employment spell (start and end months), total income per spell, industry, sector, and employer. We observe the employment and income history of all individuals, both within the taxi sector and all other sectors. In all of our analyses, we include both incomes from employment and self-employment, and we thus include income derived from self-employed taxi drivers.

To create a measure of monthly income, we transform the spell-level data as follows. The first step is to divide the total income for a given spell by the spell’s duration in months, such that we have the average monthly income during the spell. Note that spells are specified by year and can therefore be at most 12 months long, from January to December. As individuals may have overlapping spells from different employers, we then take the sum of monthly incomes across all active spells in a given month. As a second step, we refine this approach to avoid a misreporting error caused by the tendency of employers to report spells as having a duration of one year, January to December, even when spells may, in reality, be shorter. We apply a correction for such misreporting errors only for spells that occur during the year in which an individual passes the required written taxi exams. For such spells, we consider any income coming from taxi firms as misreported if it occurs in the months prior to passing the written tests. We thus shift any taxi firm income to the remaining months of the spell instead. Note that we only perform this correction for *taxi* income occurring in the *same* calendar year as individuals pass the written taxi exams. For example, consider an individual who passes the exams in January and an employment spell at a taxi firm in the preceding months, i.e., in the preceding calendar year. In this case, we will not make any changes to the data and thus can detect potential pre-trends in taxi incomes. If the individual instead passes the exams in March, we shift any reported taxi income from January and February to the remaining months of the employment spell. Again, however, any taxi income occurring before January is left unchanged in the data. We thus only shift away taxi income arriving in the same year as passing written exams, but in the months before passing the exams. To check for the robustness of this correction, in Section 6 we also display results without the correction using the sub-sample of individuals who passed their tests from January to April in a given year, for whom the issue of misreported income will be the smallest.

In our main analysis, we divide the population into two groups: individuals of non-Western origin arriving in Sweden at an age older than 15 (“immigrants”) and individuals born in Sweden (“natives”). This separation is motivated by previous research on labor market outcomes for individuals with an immigrant background. The main difference in outcomes between natives and immigrants is for immigrants originating in non-Western countries and arriving in Sweden at an older age (Eriksson, 2010; Åslund et al., 2014). Place of birth is given by a variable that either identifies the specific country or a group of countries (in the case that the number of immigrants from that country is very few in numbers).

Table 2 displays the frequency distribution of countries of origin among our sample. Out of 26,292 individuals who pass the written taxi exams between 2004 and 2017, 16,095 or 61 percent are born in Sweden. Among immigrants, the most common country of origin is Iraq (3,895 individuals), followed by Iran (954) och Somalia (933). Further down are Afghanistan (544), North Africa and the Middle East excluding Iran and Iraq (542) and Turkey (526). Hence, all of the most common source countries for taxi drivers are located in Africa and the Middle East. We can also see some differences in the average age and years in Sweden before taking the tests to become a taxi driver.

*Table 2: Regions of birth and characteristics for the main sample of taxi drivers*

| Region                       | Count | Age  | Years in Sweden |
|------------------------------|-------|------|-----------------|
| Afghanistan                  | 544   | 33.6 | 5.9             |
| Africa                       | 241   | 38.9 | 8.9             |
| Bosnia and Herzegovina       | 358   | 38.4 | 10.7            |
| Central America              | 19    | 43.9 | 11.2            |
| Central Asia                 | 118   | 37.6 | 4.4             |
| Chile                        | 47    | 46.5 | 18.6            |
| China                        | 33    | 39.5 | 6.6             |
| East Europe                  | 299   | 36.1 | 7               |
| Egypt                        | 46    | 36.1 | 6.9             |
| Eritrea                      | 225   | 38.4 | 9.5             |
| Ethiopia                     | 264   | 39.3 | 12.5            |
| India                        | 56    | 36.7 | 10.3            |
| Iran                         | 954   | 41.2 | 12.2            |
| Iraq                         | 3895  | 35.2 | 6.4             |
| Lebanon                      | 315   | 37.9 | 12.1            |
| North Africa and Middle East | 542   | 36.4 | 8.2             |
| Other                        | 37    | 38   | 10.3            |
| Poland                       | 118   | 44.3 | 15.6            |
| Romania                      | 47    | 39.4 | 11.6            |
| Somalia                      | 933   | 32.2 | 5.8             |
| South America                | 74    | 42.5 | 12.8            |
| South Asia                   | 250   | 37   | 9.2             |
| South-East Asia              | 25    | 39.3 | 12.6            |
| Sweden                       | 16095 | 35   | —               |
| Syria                        | 231   | 38.1 | 10.4            |
| Turkey                       | 526   | 36   | 10.9            |

*Note: The table shows the country or region of birth for the individuals included in our main analysis. For privacy reasons, data on the country of birth are grouped to the regional level for source countries with relatively few observations. “Other” includes the Baltic, East Asia, North America, Oceania, and Thailand. “Age” and “Years in Sweden” refers to the average of two years before passing the written exams.*

Table 3 displays descriptive statistics for our sample and the total population, split between immigrants

and natives. Taxi drivers are observed two years prior to passing exams, while the total population figures are averaged over the sample period. Taxi drivers are mostly male and younger than the population as a whole. Compared to non-taxi driving counterparts of the same origin, taxi drivers have lower earnings, are more likely to receive UI and welfare benefits, and have lower rates of higher education. However, the education gap is notably larger among natives, for which taxi drivers are 13 percentage points less likely to have higher education, whereas the difference among immigrants is less than a percentage point.

*Table 3: Comparison of taxi drivers and non-taxi drivers*

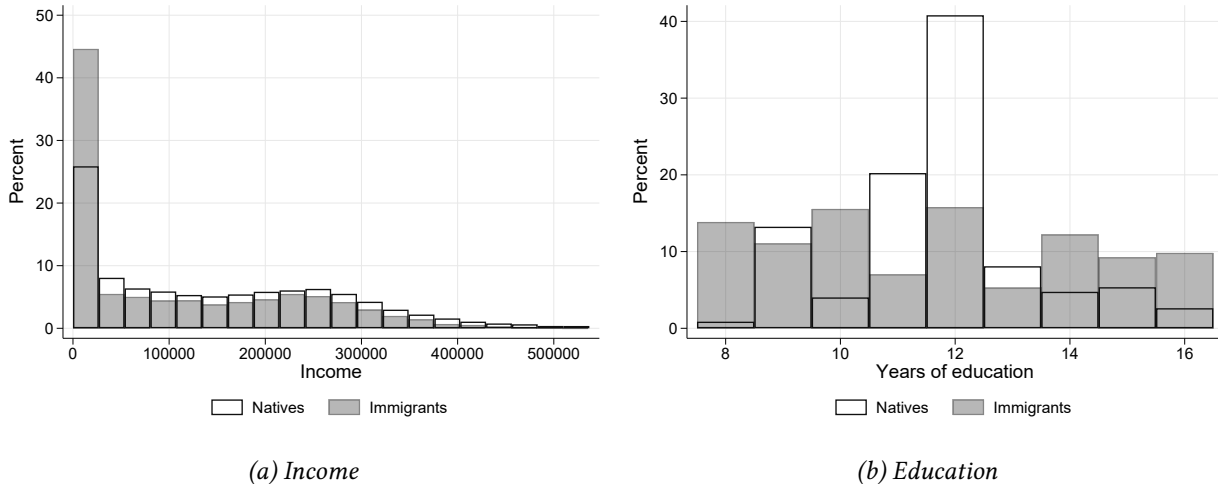
|                      | Taxi drivers        |                      | Others              |                      |
|----------------------|---------------------|----------------------|---------------------|----------------------|
|                      | Immigrants          | Natives              | Immigrants          | Natives              |
| Male                 | 0.972<br>(0.165)    | 0.802<br>(0.398)     | 0.483<br>(0.500)    | 0.510<br>(0.500)     |
| Age                  | 36.43<br>(8.844)    | 35.03<br>(13.56)     | 41.64<br>(10.38)    | 43.16<br>(12.70)     |
| Income               | 8807.0<br>(10072.7) | 12923.6<br>(12193.5) | 9057.9<br>(11934.7) | 16588.5<br>(15677.3) |
| No UI Benefits       | 0.812<br>(0.390)    | 0.811<br>(0.392)     | 0.864<br>(0.343)    | 0.899<br>(0.301)     |
| No Welfare Benefits  | 0.510<br>(0.500)    | 0.882<br>(0.323)     | 0.684<br>(0.465)    | 0.934<br>(0.248)     |
| Years of schooling   | 11.72<br>(2.635)    | 11.74<br>(1.708)     | 11.97<br>(2.827)    | 11.99<br>(2.322)     |
| Higher education     | 0.366<br>(0.482)    | 0.208<br>(0.406)     | 0.373<br>(0.484)    | 0.336<br>(0.472)     |
| Days in unemployment | 74.42<br>(108.6)    | 35.00<br>(73.79)     | 27.82<br>(70.49)    | 12.01<br>(46.32)     |
| Observations         | 10197               | 16095                | 2481669             | 31206682             |

*Note: The table includes the individuals in our main analysis separated by immigrant status. “Income” is given in average monthly income in SEK. All variables for taxi drivers refer to two years before passing the written exams.*

Immigrant taxi drivers also differ from their native counterparts in several regards. Firstly, immigrant drivers are almost exclusively male (97 percent versus 80 percent among natives), have 32 percent lower pre-taxi incomes, and are more likely to have been unemployed (though no more likely to receive UI benefits), and 37 percentage points more likely to receive welfare benefits. The average years of education are similar across the two groups. However, this masks substantial heterogeneity. There is a much larger fraction of higher-educated immigrants than natives, with 36.6 percent and 20.8 percent having more than 12 years of schooling, respectively. This is explained by studying the full distribution of schooling, as displayed in Figure 3. While distributions for both immigrants and natives are centered around high-school completion, immigrants have a more evenly dispersed distribution of education levels compared

to natives, where the majority have either 11 or 12 years of education. Immigrants instead have higher shares of individuals with up to 10 years and at least 14 years of education.

Figure 3: Income and education distribution two years before passing the written exams



Note: Income is given by annual income in SEK.

Figure 4 displays distributions of years in Sweden and age at the time of passing exams. There is substantial variation in years since migration, which peaks at five years before slowly decreasing with time in Sweden. Age distributions are very different across natives and immigrants, with the most common test-taking ages among natives being just above the legal threshold of 21 years of age. Immigrants, by contrast, arrive at different ages, and their distribution is more bell-shaped.

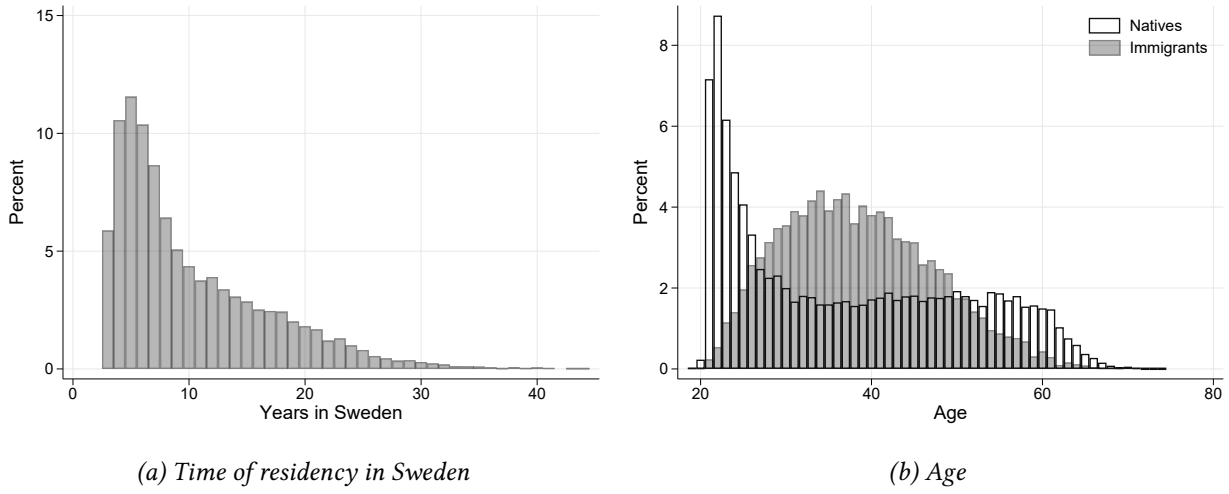
Lastly, Table 4 displays descriptive statistics for the immigrant sample separated by years since migration. More recent arrivals tend to be younger, have lower incomes, and are more likely to rely on welfare benefits but are, in contrast, more likely to have a post-secondary education.

## 4 Empirical framework

Our administrative data allow us to track individuals from age 16 or immigration to Sweden. Moreover, we observe precise dates of written taxi driver’s license exams, allowing us to observe individuals before and after they pass the required exams. In the following, we use “treatment” to refer to passing the three required written taxi exams and “treated individuals” to refer to individuals who have done so. In our main specifications, we use the panel dimension of our data to compare labor market outcomes between individuals that pass and those that have yet not passed but will do so later in the sample period. In Section 6, we also include individuals that never passed or took the test to become a taxi driver, applying the method of Borusyak et al. (2021) to take into account issues relating to heterogeneous treatment effects in staggered treatment designs.

We apply an event-study design, where the dynamic effect of treatment is obtained (Angelov et al.,

Figure 4: Statistics when taking the first test to become a taxi driver



Note: Individuals with a time of residency in Sweden of three years or less are excluded due to the restriction of using a balanced panel in our analysis.

Table 4: Descriptive statistics for immigrants depending on years since migration

|                     | <5 years           | 5-10 years          | >10 years            | All                 |
|---------------------|--------------------|---------------------|----------------------|---------------------|
| Male                | 0.987<br>(0.111)   | 0.969<br>(0.172)    | 0.955<br>(0.207)     | 0.972<br>(0.165)    |
| Age                 | 32.40<br>(7.630)   | 34.96<br>(7.651)    | 43.27<br>(7.445)     | 36.43<br>(8.844)    |
| Income              | 6294.7<br>(8296.6) | 9845.7<br>(10081.7) | 10941.3<br>(11392.9) | 8807.0<br>(10072.7) |
| No UI Benefits      | 0.894<br>(0.307)   | 0.780<br>(0.414)    | 0.741<br>(0.438)     | 0.812<br>(0.390)    |
| No Welfare Benefits | 0.329<br>(0.470)   | 0.545<br>(0.498)    | 0.707<br>(0.455)     | 0.510<br>(0.500)    |
| Years of schooling  | 11.86<br>(2.830)   | 11.50<br>(2.683)    | 11.76<br>(2.281)     | 11.72<br>(2.635)    |
| Higher education    | 0.433<br>(0.496)   | 0.343<br>(0.475)    | 0.305<br>(0.461)     | 0.366<br>(0.482)    |
| Observations        | 3911               | 3277                | 3009                 | 10197               |

mean coefficients; sd in parentheses

Note: The table includes the individuals in our main analysis separated by years since immigration to Sweden. "Income" is given in average monthly income in SEK. All variables refer to two years before passing the written exams.

2016; Kleven et al., 2019). This method has two main benefits. First, it makes potential pre-trends easier to detect. Second, the full trajectory of the labor market outcomes can be analyzed. The outcome variable  $Y_{ist}$  denotes labor market outcomes for individual  $i$ , in calendar year  $\times$  month  $s$  and, in event time  $t$ . Even though our main outcome variable is income, we also focus on other relevant measures of labor market outcomes, such as employment, UI, and welfare benefits. Our baseline specification includes a balanced panel of individuals that we observe 36 months before passing the written exams and 36 months after. Hence, the calendar year  $\times$  month in which the individual pass the third and final required exam is time  $t = 0$ . We include event time dummies for all periods ( $t$ ) ranging from 36 months prior to the event to 36 months after. The event time dummy for period  $t = -24$  is omitted and provides the baseline, i.e., all effects are relative to the outcome two years before the event. The coefficient of interest is  $\beta$  and shows the effect of receiving the license on labor market outcomes ( $Y_{ist}$ ). We therefore run the following regression for individual  $i$ , observed  $t$  periods before or after treatment and in calendar year  $\times$  month  $s$ , separately for natives and immigrants:

$$Y_{ist} = \sum_{j \neq -24} \beta_j \cdot \mathbf{I}[j = t] + \lambda_i + \lambda_s + \lambda_{is} + \varepsilon_{ist}. \quad (1)$$

We include a full set of indicator variables for gender ( $\lambda_i$ ), calendar year  $\times$  month ( $\lambda_s$ ), and age and years since immigration ( $\lambda_{is}$ ). We omit years since migration for natives. Including a full set of indicator variables are important to control non-parametrically for life and business cycle trends. We are interested in identifying  $\beta_j$ , the effect of passing the written taxi exams on labor market outcomes. To do so, the identifying assumption is that the labor market outcomes of individuals who passed the exams would have evolved in parallel with those of individuals who have not yet passed the exams. The variation in age for when they pass the tests is used to identify the effects. This means that we, at any given calendar year  $\times$  month, compare individuals with the same gender, age, and years since migration but at different periods relative to passing the test.

To keep individuals with zero income in the analysis, we use income in levels rather than logs as the outcome ( $Y_{ist}$ ) in Equation 1. To study percentage change in income ( $P_t$ ) we follow Kleven et al. (2019) and use the following transformation:

$$P_t \equiv \hat{\beta}_t / \mathbf{E} [\tilde{Y}_{ist} \mid t], \quad \text{where} \quad \tilde{Y}_{ist} \equiv \lambda_i + \lambda_s + \lambda_{is} \quad (2)$$

## 5 Results

### 5.1 Employment and income from taxi firms

We begin by estimating the impact of passing written taxi exams on the likelihood of ever being employed in a taxi firm. This is a test of whether passing the written exams is predictive of later obtaining a taxi driver's license and beginning to work as a taxi driver. Figure 5 displays the effect using 36 months of pre- and post-treatment data. For each month, the estimate indicates the difference between treatment and control groups in their likelihood of ever being employed in a taxi firm. Before passing exams, treatment and control groups have very similar outcomes, as is to be expected before either group passes the written taxi

exams. Starting in the treatment month, however, panel (a) shows that immigrants' taxi firm employment rises sharply, by nearly 20 percentage points relative to the control group. This effect gradually increases to 60 percent after 15 months and ultimately reaches approximately 70 percentage points after 36 months. For natives, panel (a) also shows that effects are largely similar but with a faster development, where the indicator for ever having taxi firm employment reaches 60 percentage points after nine months. This may reflect differences in the ability to find a job at a taxi firm, even conditional on having a taxi driver's license, or differences in the ability to obtain the taxi driver's license after having passed the written tests.

We next display the evolution of monthly incomes from taxi firms in panel (b) of Figure 5. For immigrants, taxi incomes rise immediately after passing written exams, increasing to 7,500 SEK after 12 months, equivalent to €750. Between 12 and 36 months post-treatment, taxi incomes rise somewhat and remain stable at above 7,500 SEK per month compared to the control group. For natives, the dynamic effects are somewhat different. Similar to the case with employment, taxi income rises faster than for immigrants. However, the effect of income reaches its peak at a lower level of roughly 6,000 SEK 12 months after treatment, after which it gradually declines to 5,000 SEK after 36 months.

Panels (c) and (d) display two related measures: the share of total monthly income from taxi firms and an indicator variable for having taxi income as the largest contributor to total income, respectively. Both panels show that immigrants experience an increase in these measures of at least 40 percentage points between 12 and 36 months after treatment. The increase remains at this level throughout the sample period. Natives, by contrast, experience a peak at approximately 40 percentage points within the first 12 months, after which there is a decline over time by ten percentage points. Note that these are reduced-form estimates that include all individuals who never became taxi drivers, as per panel (a), or who subsequently left the taxi sector.

We conclude that passing the written taxi exams has a substantial and immediate impact on the likelihood of ever being employed in the taxi sector, on the level of income derived from taxi firms, as well as the propensity to have taxi driving as the main employment. Moreover, we note that taxi driving tends to be a longer-term occupation for immigrants, who show no signs of leaving the occupation or using it as a stepping-stone to other careers. By contrast, natives gradually decrease their employment in taxi driving after the first 12 months, indicating a greater use as a temporary solution.<sup>5</sup>

## 5.2 Employment and income from all sources

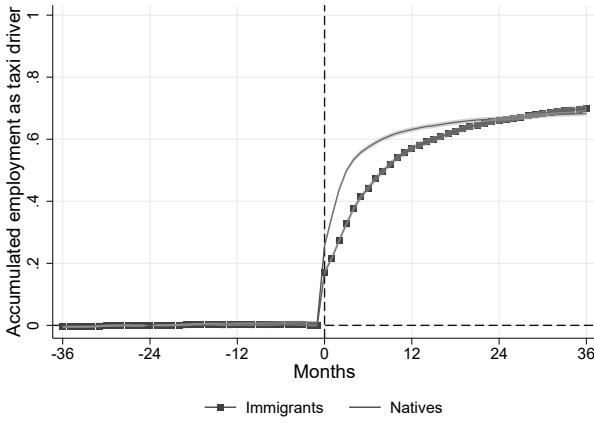
Having established a positive effect of passing the written taxi driver's license exams on engagement in the taxi labor market, we proceed to study its impact on overall employment and income. If individuals who access the taxi labor market would otherwise have found jobs of a similar type as before, we may find that the overall effect on labor market incomes is negligible, despite having a large effect within the taxi sector.

Table 5 displays our results. Column 1 shows that total labor income increases by 4,522 SEK per month,

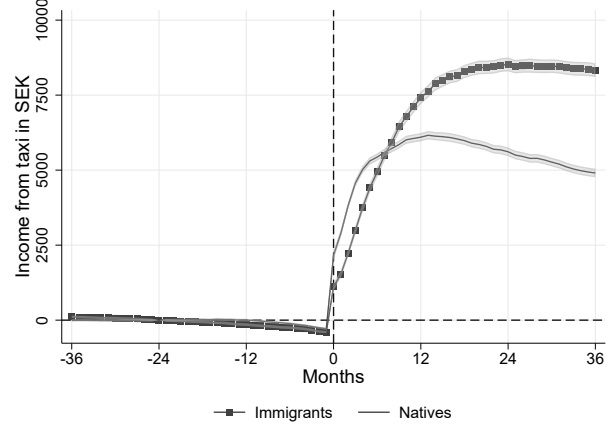
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<sup>5</sup>It is possible that some individuals who are employed at taxi firms are not in fact taxi drivers. For example, individuals may do administrative or managerial work. However, it is unlikely that the timing of such employment would coincide with passing taxi exams, as such positions are not covered by occupational licensing.

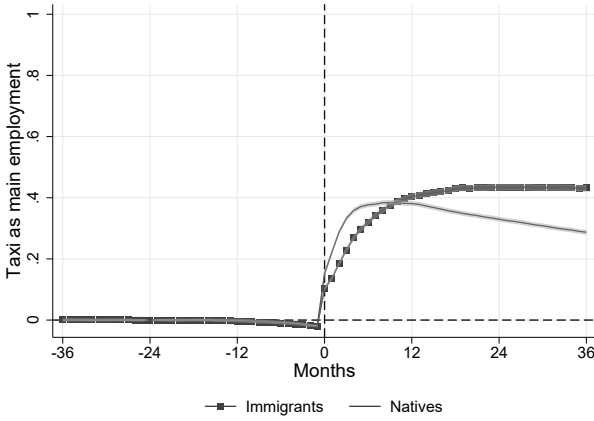
Figure 5: Impact of passing written exams on income and employment from taxi firms



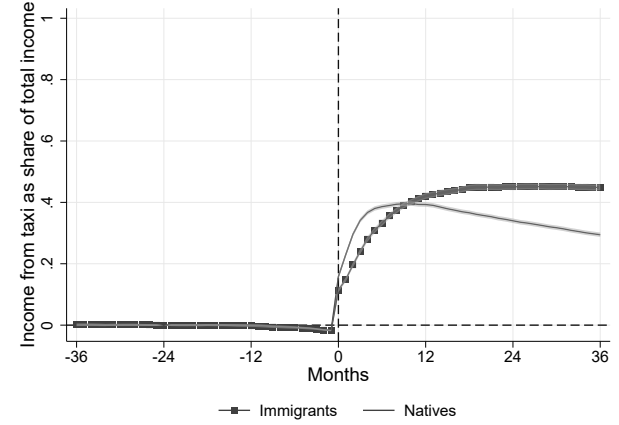
(a) Taxi Employment



(b) Taxi Income



(c) Taxi as Main Occupation



(d) Share of Total Income from Taxi

Note: “Accumulated employment as taxi driver” is equal to one if an individual has ever had income from a taxi firm up until the period in question, and zero otherwise. “Taxi as main employment” is a dummy equal to one if the income from taxi firms is larger than income from non-taxi firms. In our data, we can see whether individuals were employed by firms in the taxi sector, but not if they were employed as taxi drivers. However, as shown in the figure, income and employment within these firms increase substantially when passing the written tests, indicating that they are working as taxi drivers rather than with something else within the firm. This data limitation also explains why the treatment group can have a slight negative trend in “income from taxi” before passing the written exams.



which is statistically significant at the 1 percent level. This represents a large increase in incomes compared to pre-treatment levels. Relative to the pre-treatment average of 8,956 SEK, individuals who pass written taxi exams increase their monthly income by 50 percent. Column 2 shows that immigrants raise their overall employment rate by 18.1 percentage points, where employment is defined as having a positive income in a given month. Again, this is a large increase relative to the mean outcome of 57.5 percent two years before treatment.

*Table 5: Average impact of passing written exams on labor market outcomes*

|              | Immigrants           |                       | Natives              |                        |
|--------------|----------------------|-----------------------|----------------------|------------------------|
|              | Income               | Employment            | Income               | Employment             |
| Passing      | 4522.2***<br>(36.00) | 0.181***<br>(0.00129) | 2000.5***<br>(32.48) | 0.135***<br>(0.000843) |
| Observations | 744381               | 744381                | 1174935              | 1174935                |
| Mean outcome | 8956.6               | 0.575                 | 12576.4              | 0.755                  |

*Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .*

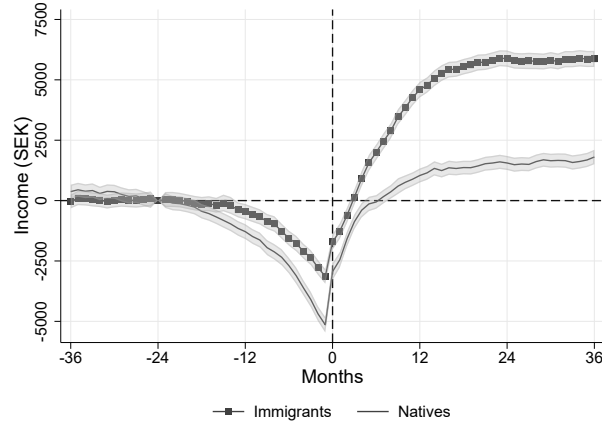
*Note: The table shows the regression on labor market outcomes when including indicator variables for age and year on a balanced panel with individuals included 36 months before and after passing the written exams for the taxi driver license. “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams.*

The next two columns of Table 5 display results for natives. Compared to immigrants, natives who pass taxi license exams experience a smaller but also positive effect on average monthly incomes, amounting to 2,000 SEK. Since natives have higher incomes before passing taxi exams, however, the relative effect is also smaller. Relative to the mean of 12,576 SEK, the incomes of natives increase by 15.9 percent. Employment rates increase by 13.5 percentage points on average, a relative increase of 17.8 percent.

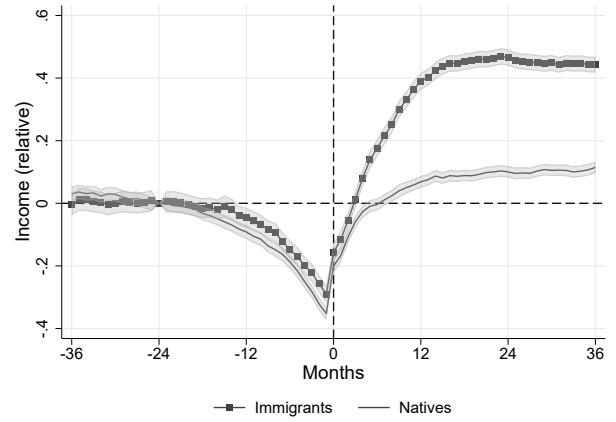
Event-study estimates for the impact of access to the taxi labor market on income are presented graphically in Figure 6. For immigrants in panel (a), differences between treatment and control groups are close to zero and stable until approximately 12 months before passing the written taxi exams. Subsequently, incomes begin to decrease significantly for the treatment group. In the month before passing written tests, the treatment group has more than 2,500 SEK lower income than the control group, corresponding to a nearly 30 percent decline relative to  $t = -24$  as shown in panel (b). Below, we discuss possible interpretations and reasons for this divergence from parallel trends.

Moving on to post-treatment outcomes, we observe a sharp increase in monthly income in the month of passing exams. Incomes continue to rise monthly until reaching a peak of nearly 5,000 SEK higher than the control group after 12 months. This effect increases somewhat over the remainder of the sample period. As there is a clear transition phase during the first post-treatment year, Table 6 displays regression results exactly 36 months after treatment to estimate the effects net of this transition. Column 1 indicates that overall income is 5,865 SEK higher for immigrants after 36 months, compared to the average effect of

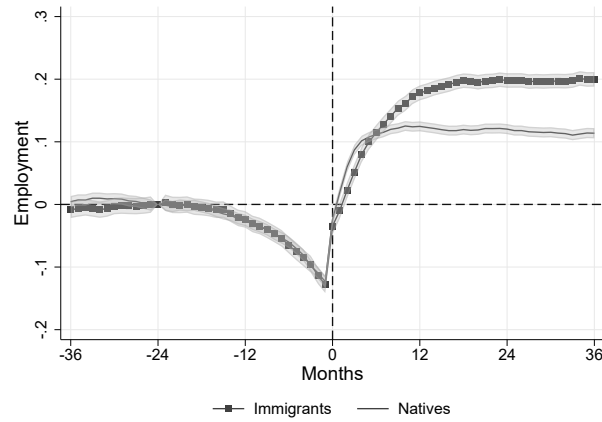
Figure 6: Impact of passing written exams on labor market outcomes



(a) Income in levels



(b) Income relative to period -24



(c) Employment

Note: “Income in SEK” is income in Swedish Krona on a monthly level. “Income” is income in the given time period relative to the income two years before passing the test. “Employment” is equal to one if the individual has an income  $> 0$  in the given time period, and zero otherwise.

4,522 SEK noted above. Panel (b) of Figure 6 displays the event-study estimates for incomes relative to 24 months before treatment. The figure shows that between 12 and 36 months after passing exams, incomes increase by more than 40 percent in the treatment group relative to not-yet-treated controls. Column 2 of Table 6 indicates that the effects for employment are 20 percentage points after 36 months, also somewhat higher than the average effect.

*Table 6: Average impact of passing written exams on labor market outcomes at 36 months after passing the test*

|              | Immigrants           |                       | Natives              |                       |
|--------------|----------------------|-----------------------|----------------------|-----------------------|
|              | Income               | Employment            | Income               | Employment            |
| Passing      | 5865.5***<br>(170.7) | 0.200***<br>(0.00595) | 1805.2***<br>(152.4) | 0.114***<br>(0.00419) |
| Observations | 744381               | 744381                | 1174935              | 1174935               |
| Mean outcome | 8956.6               | 0.575                 | 12576.4              | 0.755                 |

*Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .*

*Note: The regressions include indicator variables for age, year, month, gender, and, years since migration (for immigrants). “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams.*

Turning next to natives’ dynamic effects, panel (a) of Figure 6 shows that natives experience an earlier and more pronounced decrease in income levels before passing the written taxi exams, visible around the start of the sample period. The decrease in natives’ incomes reaches a low point of close to -5,000 SEK in the month prior to passing taxi exams, nearly twice what is observed for immigrants. However, in relative income in panel (b), natives and immigrants have a similar negative trend in the 12 months before passing the tests, indicating that the difference in levels is due to differences in pre-taxi incomes. Similar to the case for immigrants, incomes for natives increase rapidly post-treatment. After passing the written taxi exams, incomes rise sharply for several months. After 36 months, column 4 of Table 6 shows that natives’ incomes are 1,805 SEK higher per month. As seen in Figure 6, natives display a pattern that may be consistent with an Ashenfelter’s dip, raising the possibility that natives’ incomes would have increased even in the absence of becoming taxi drivers. Section 5.2.1 investigates this possibility in further detail.

Lastly, panel (c) of Figure 6 displays dynamic effects on the probability of being employed. Interestingly, pre-treatment trends are highly similar in this outcome across immigrants and natives. However, a larger difference of approximately ten percentage points appears post-treatment, such that immigrants who pass taxi exams have employment rates that are higher by 20 percentage points after 36 months, while natives’ employment rate is higher by 11 points, as shown in Table 6.

### 5.2.1 Analysis of pre-treatment trends

Taken together, our results suggest that both immigrants and natives seek out the taxi driver labor market following an adverse shock in the labor market. After passing taxi exams, both groups see large income increases, with immigrants experiencing substantially larger effects. For our estimates to capture the causal treatment-on-the-treated effect of passing taxi exams, one must assume that trends in outcomes would have evolved in parallel between the treatment and control groups in the absence of treatment. While we cannot test this assumption, the observed divergence of pre-treatment trends between treatment and control groups indicates that the parallel trends assumption may be violated in our setting. In this section, we discuss possible causes for the observed pre-trends, which begin to diverge around 12 months prior to treatment, and point to their implications for interpreting our estimates.

One possibility is that the observed negative pre-treatment trends indicate that the counterfactual outcomes for the treatment group would have been a continued deterioration relative to the control group, possibly bottoming out at permanently lower incomes and employment rates. Under this assumption, our estimates would be an *underestimate* of the causal effect of passing the written taxi exams on income since the control group's outcomes would be higher than the true counterfactual for the treatment group. Our estimates would thus provide a lower bound on the causal effect of passing taxi exams on income. However, it may be implausible to assume that the observed pre-trends would continue indefinitely in a negative direction, as the unemployed are likely to find other occupations in the absence of becoming taxi drivers. Nevertheless, as long as incomes are assumed to not fully recover to the pre-decline levels, our estimates would still represent underestimates of the treatment effect on the treated.<sup>6</sup>

We next distinguish between two additional mechanisms that may explain the negative pre-trends and discuss how they would affect the interpretation of our estimates. The first mechanism is that diverging pre-trends reflect anticipation effects. Individuals who anticipate switching occupations to taxi driving need to spend time studying and researching the labor market, leading to less time or effort spent in their current occupations. They also need to quit their current jobs, possibly leading to income caps for a period of time before beginning work as a taxi driver. This anticipation effect can thus be considered to reflect the investment cost of becoming a taxi driver and constitute part of the net return of becoming a taxi driver. The gross return, excluding these investment costs, can then be estimated by suitably excluding observations before treatment. We propose to exclude 12 months, which is when we start to observe diverging pre-trends. Note that if diverging pre-trends are due to anticipation, the parallel trends assumption appears fulfilled as observed pre-trends are parallel prior to approximately 12 months prior to treatment. Table 7 shows that doing so leads to an estimate of average post-treatment income of 3,607 SEK for immigrants, compared to 4,522 SEK in the standard specification. Thus, while considering anticipation effects decrease our estimated treatment effect, our estimates remain positive and both economically and statistically significant. The effect on employment decreases from 20 to 14.7 percentage points. Similarly, estimates for natives also decrease, with an estimated increase in a monthly income of 680 SEK – down from 1,805 SEK – but a largely similar effect on employment at 10 percentage points. Hence, estimates for immigrants are somewhat smaller but remain both economically and statistically significant when taking anticipation

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<sup>6</sup>We provide some evidence for this claim later in this section.

effects into account, while estimates for natives are more sensitive to this assumption.

*Table 7: Dropping observations 12 months pre-treatment to avoid anticipation effects*

|              | Immigrants           |                       | Natives             |                        |
|--------------|----------------------|-----------------------|---------------------|------------------------|
|              | Income               | Employment            | Income              | Employment             |
| Passing      | 3607.9***<br>(42.63) | 0.147***<br>(0.00152) | 680.3***<br>(37.32) | 0.103***<br>(0.000971) |
| Observations | 632214               | 632214                | 997890              | 997890                 |
| Mean outcome | 9017.7               | 0.583                 | 13086.0             | 0.773                  |

*Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .*

*Note: The table shows the regression on labor market outcomes when including indicator variables for age and year on a balanced panel with individuals included 36 months before and after passing the written exams for the taxi driver license. Observations 12 months before passing taxi exams are excluded. "Passing" is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams.*

The second potential mechanism for negative pre-treatment trends is that individuals tend to pass the taxi exams following a negative labor market shock, such as losing their employment. If so, it is plausible that incomes would recover to some extent over time, as individuals find new jobs. Individuals who turn to the taxi labor market would, thus, have seen their labor market outcomes improve even in the absence of becoming taxi drivers, although it is a priori unclear to what extent they would be able to recover. This is a version of Ashenfelter's dip, a phenomenon in which individuals select into a labor market program in response to a negative shock, after which their incomes improve due to mean reversion rather than a causal program effect (Ashenfelter, 1978). We note, however, that the standard Ashenfelter mechanism cannot explain the pattern of estimates that we observe for immigrants, as immigrants' incomes rise substantially over pre-treatment levels and thus appears unlikely to be explained by mean reversion.

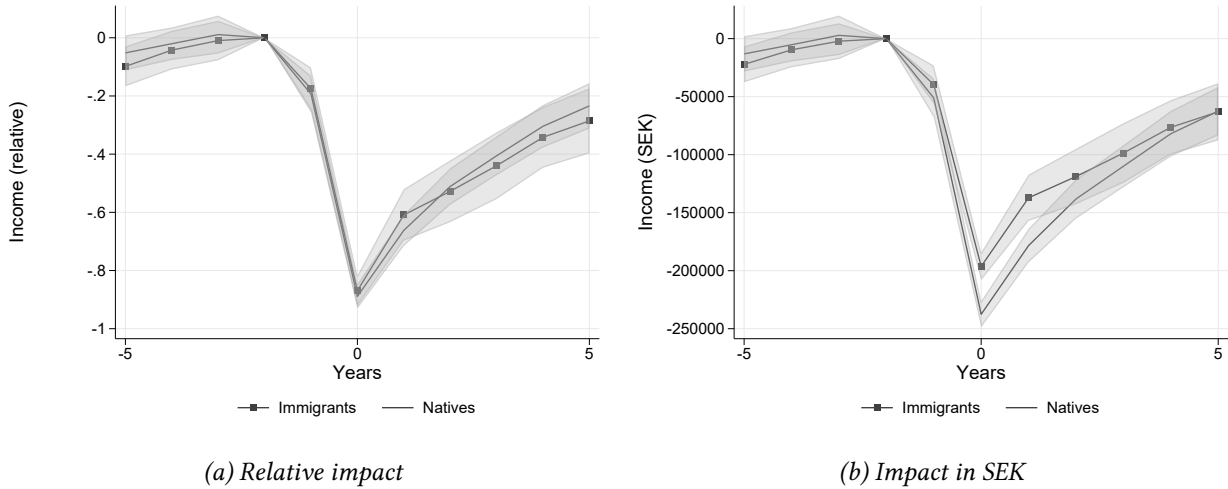
Nevertheless, to quantitatively assess the extent to which mean reversion after job loss could explain the pattern of effects that we observe, we estimate a separate event-study design. More specifically, we use access to full population register data to follow individuals who experience sudden negative income shocks and study the effect on income dynamics in the subsequent years. The idea is to observe what occurs when individuals experience sudden labor market shocks outside of our sample of taxi drivers. We can then check whether labor market dynamics following income shocks match the pattern of results obtained after passing taxi exams. If post-shock incomes quickly recover and even surpass prior income levels, this would cast doubt on the claim that our estimates capture the causal effect of access to the taxi labor market. Instead, it would indicate that other labor market dynamics associated with job loss are driving our observed effects. To have similar individuals as the ones we have in our main analysis, we create a sample of non-taxi drivers that we match our taxi drivers using coarsened exact matching (Blackwell et al., 2009; Iacus et al., 2012). The variables used to match are region of birth, age, years since migration, and education. This procedure means that we match taxi drivers in their pre-period (before

passing the tests) with individuals that never took a test to become taxi drivers.

Using yearly data on income, we define an *income shock* as the year during which an individual has income below a threshold of approximately €10,000 after having had an income above that level for at least five consecutive years.<sup>7</sup> We exclude women since taxi drivers are in general men (see Table 3), and we further restrict attention to individuals aged 20 to 60 years old to avoid identifying retirements. We estimate event-study models using the income shock as the event using the same methodology described in Section 4 but using yearly data.

Figure 7 displays our results with relative income as the outcome. We find that the income shock is associated with long-term adverse effects on income. One year after the shock, individuals have substantially lower incomes than the pre-shock level, approximately 85 percent lower. This effect persists for several years. Five years later, incomes remain more than 20 percent lower than in the control group. The impact of the income shock is similar for immigrants and natives in relative terms (panel a), but the short-run negative impact in SEK is slightly larger for natives (panel b). In the year of the shock, incomes drop sharply and slowly recover over time. Yet, even five years later, incomes remain over 20 percent lower. These results thus stand in sharp contrast to what we observe for individuals who pass the written taxi exams. While our taxi estimates indicate that incomes quickly rise above the previous mean incomes, the effects of job loss are negative even 5 years later.

Figure 7: Effect of job loss on income



*Note: These graphs show the loss in income after a job loss (defined as going from an income above two price base amounts for at least 5 years to an income less than two price base amounts in a succeeding year). Individuals within the age range of 20 to 60 are included. The figures are not restricted to taxi drivers, but rather a matched sample of individuals.*

The results in Figure 7 indicate that individuals who are subject to an adverse labor market shock

<sup>7</sup>This level corresponds to two *price base amounts*, a fixed figure determined annually by the Swedish government, used in calculations for various social benefits, taxes, and pensions. This can be compared to the median yearly income in 2017, which amounted to €36,000.

tend to experience long-term earnings losses and, on average, do not recover or come close to surpassing previous income levels in the way observed for taxi drivers. Therefore, it appears unlikely that individuals who pass the written taxi exams would have experienced the observed increases in income in the absence of treatment. Indeed, Figure 7 implies that our estimates are a lower bound for the causal effect of passing taxi exams, as the true counterfactual is to have an income that is lower than what we observe in the control group.

### 5.3 Usage of social insurance systems

In this section, we estimate how access to the taxi labor market affects the usage of the social insurance system using data at yearly intervals. We use two outcomes. The first is an indicator taking value one if an individual receives neither social welfare transfers nor housing subsidies, both of which are means-tested, and zero otherwise. The second is an indicator of not receiving unemployment insurance (UI) benefits in a given month. Since unemployment insurance is partly driven by income and contributions to the UI system, we separately analyze such benefits as they have a more direct link to our outcome.

Columns 1 and 3 of Table 8 show our results for UI benefits. For immigrants, we find that they are no less likely (in terms of statistical significance) to receive UI benefits on average in the three years after passing taxi exams, while natives increase their use of UI by 1.3 percentage points. The dynamic effects reported in panel (a) of Figure 8 show that before passing exams, UI usage increases for both groups in the year before treatment. In the treatment year, usage increases by at least ten percentage points. This corresponds well with the observed pre-treatment trends in employment rates, which declined similarly for both groups, as seen in panel (c) of Figure 6. After passing taxi exams, however, both immigrants and natives rapidly reduced their usage of UI benefits. Focusing on the long-run effect three years after treatment, Columns 1 and 3 of Table 9 indicate that both immigrants and natives are significantly less likely to receive UI benefits, with a decrease of 8.5 and 5.8 percentage points, respectively.

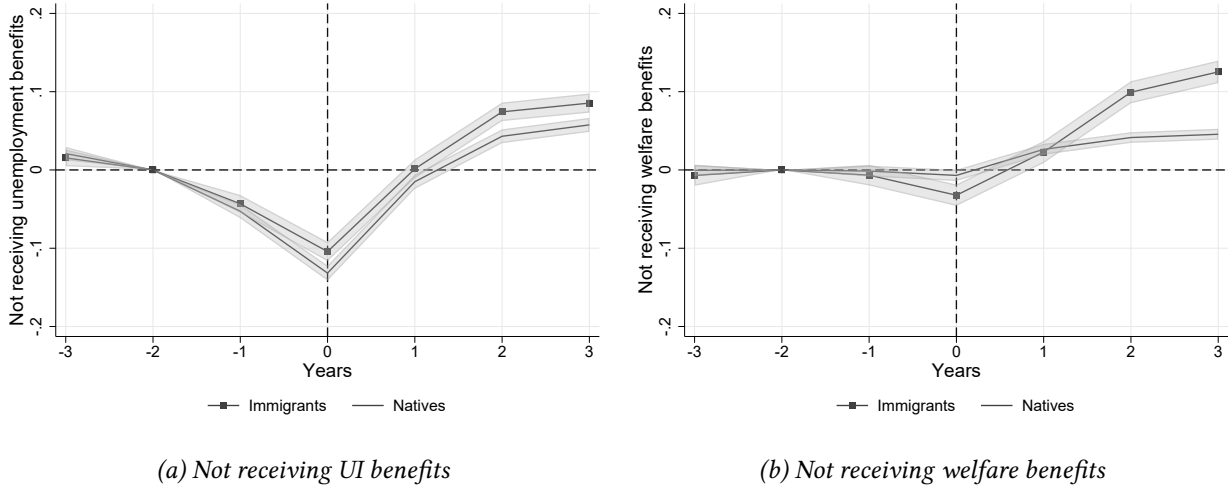
Table 8: Average impact of passing written exams on welfare and UI benefits

|              | Immigrants           |                        | Natives                 |                        |
|--------------|----------------------|------------------------|-------------------------|------------------------|
|              | No UI Benefits       | No Welfare Benefits    | No UI Benefits          | No Welfare Benefits    |
| Passing      | 0.00483<br>(0.00404) | 0.0377***<br>(0.00448) | -0.0134***<br>(0.00298) | 0.0220***<br>(0.00219) |
| Observations | 72898                | 72898                  | 117299                  | 117299                 |
| Mean outcome | 0.804                | 0.508                  | 0.801                   | 0.883                  |

Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The table shows the regression on welfare and UI benefits when including indicator variables for age and year on a balanced panel with individuals included 3 years before and after passing the written exams for the taxi driver license. “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams.

Figure 8: Impact of passing written exams on welfare benefits



Note: “Not receiving welfare benefits” is equal to one if an individual does not receive means-tested welfare or housing subsidies in a given month, and zero otherwise. “Not receiving unemployment benefits” is equal to one if an individual does not receive UI benefits in a given month, and zero otherwise. The omitted category is two years before passing the written exams.

Columns 2 and 4 of Table 8 show our results on receiving means-tested transfers. Two years before passing the written tax exams, 50 percent of immigrants did not receive any means-tested welfare benefits. After treatment, this is increased by 3.8 percentage points, corresponding to an increase of 7.5 percent. Among natives, the pre-treatment usage of means-tested social welfare is considerably lower, as 88 percent receive no benefits. This is further increased by 2.2 percentage points after passing tax exams. Panel (b) of Figure 8 shows corresponding event-study estimates. Interestingly, there are only minor trends in pre-treatment usage of welfare benefits among both immigrants and natives. After treatment, however, the share of individuals that receive no welfare benefits rises rapidly, most notably among immigrants. Table 9 shows that immigrants are 12.5 percentage points more likely not to receive welfare benefits after three years, an increase of 25 percent over the pre-treatment average. Natives also see a larger effect at 4.6 percentage points, corresponding to an increase of 5 percent.

## 5.4 Heterogeneous effects

The results in Section 5.2 indicate that the immigrants who gain access to the taxi labor market see substantial gains in income, with a smaller effect visible for native Swedes. In this section, we investigate whether there are other heterogeneous effects of treatment, specifically concerning education and length of residence in Sweden.

Figure 9 displays our results for immigrants split by those who are recent arrivals and have been in Sweden for 3–5 years in panel (a) and those who have been in the country for more than five years in panel (b). The panels display marked differences in outcomes. For recent arrivals, pre-treatment trends in income are small and display only a minor income decline in the months leading up to passing exams.



Table 9: Average impact of passing written exams on welfare and UI benefits at 3 years after passing the test

|              | Immigrants             |                       | Natives                |                        |
|--------------|------------------------|-----------------------|------------------------|------------------------|
|              | No UI Benefits         | No Welfare Benefits   | No UI Benefits         | No Welfare Benefits    |
| Passing      | 0.0854***<br>(0.00626) | 0.125***<br>(0.00734) | 0.0576***<br>(0.00457) | 0.0456***<br>(0.00358) |
| Observations | 72898                  | 72898                 | 117299                 | 117299                 |
| Mean outcome | 0.804                  | 0.508                 | 0.801                  | 0.883                  |

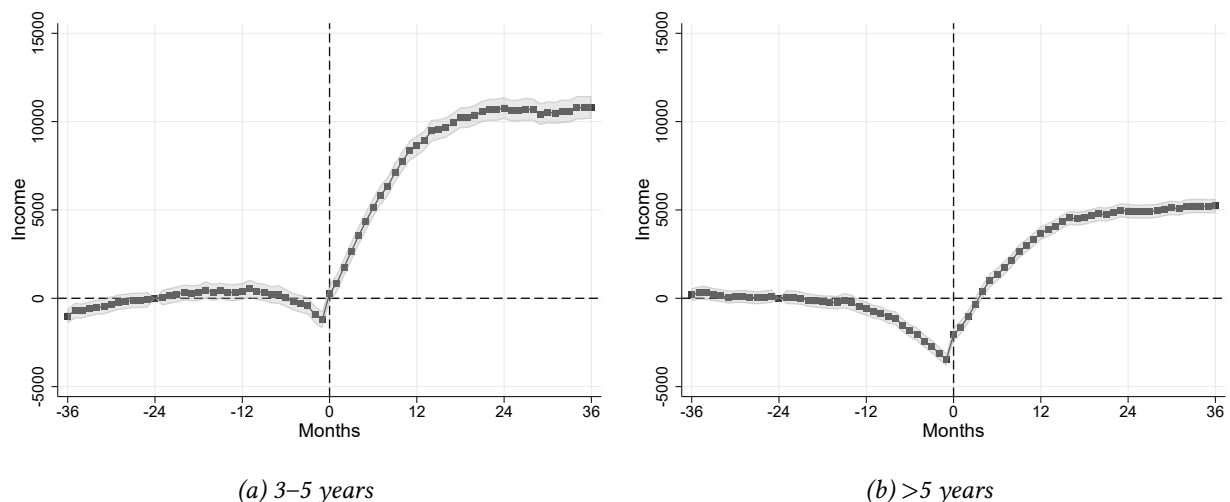
Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The regressions include indicator variables for age, year, gender, and, years since migration (for immigrants). “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-year. Mean outcome refers to two years before passing the written exams.

By contrast, panel (b) shows that the pre-treatment decline in income that we observe in the full sample is driven by immigrants who have been in Sweden for at least five years. Interestingly, post-treatment incomes are substantially larger among recent arrivals, with estimates indicating that monthly incomes are twice as high in this group compared to those with more experience in Sweden. Table 10, column 1 displays regression output for the heterogeneity, which indicates that average post-treatment incomes are 1,958 SEK smaller for individuals who have been in Sweden 10 years longer, relative to a baseline estimated income increase of 7,913 SEK. Column 2 shows that the same pattern holds for employment, as immigrants who have 10 years long experience in Sweden have a 7.8 percentage point lower effect on employment. Table 11 displays our results when looking at social insurance usage. Recent arrivals are less likely to be eligible for UI benefits, which likely explains that treatment decreases reliance on UI more for immigrants who have been in the country for a longer period. By contrast, the usage of welfare transfers follows the same pattern as labor market outcomes. The baseline effect on the likelihood of not receiving welfare transfers is 27.7 percentage points, which is reduced by 11 percentage points for individuals who arrive 10 years earlier. This result is consistent with returns to taxi driving being largest for those with the weaker outside options in the labor market, such as recent arrivals that tend to have weaker language skills, social networks, and formally recognized qualifications.

Next, we investigate the heterogeneous effects of education. To do so, we define a dummy taking value one for individuals that have completed an education comparable to more than 12 years of school. Hence, this variable captures post-secondary education. Figure 10, panel (a) displays our results for immigrants. Both higher and lower-educated immigrants display similar dynamics up to one year after treatment, at which point the incomes of higher-educated immigrants increase relatively more. Table 12 shows that higher-educated immigrants earn a significantly higher income of 371 SEK per month, 8.5 percent higher than the low-education effect of 4369 SEK. This result is interesting since it indicates that wages are highest among those immigrants who would presumably be able to earn higher incomes in other, more skilled

Figure 9: Effects of passing written exams on income by years since immigration



Note: Figures display income effect for immigrants with 3–5 years in Sweden when passing the test (a), and >5 years in Sweden when passing the test (b).

Table 10: Average impact of passing written exams on labor market outcomes relative to years since immigration

|                               | Immigrants           |                           |
|-------------------------------|----------------------|---------------------------|
|                               | Income               | Employment                |
| Passing                       | 7913.2***<br>(56.04) | 0.316***<br>(0.00204)     |
| Event × Years since migration | -195.8***<br>(4.926) | -0.00778***<br>(0.000159) |
| Years since migration         | 334.0***<br>(3.850)  | 0.0127***<br>(0.000137)   |
| Observations                  | 744381               | 744381                    |
| Mean outcome                  | 8956.6               | 0.575                     |

Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The regressions include indicator variables for age, year, gender, and, years since migration (for immigrants). Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams.

Table 11: Average impact of passing written exams on welfare and UI benefits relative to years since immigration

|                                      | Immigrants                |                          |
|--------------------------------------|---------------------------|--------------------------|
|                                      | No UI Benefits            | No Welfare Benefits      |
| Passing                              | -0.0827***<br>(0.00574)   | 0.270***<br>(0.00703)    |
| Event $\times$ Years since migration | 0.00464***<br>(0.000468)  | -0.0111***<br>(0.000515) |
| Years since migration                | -0.00790***<br>(0.000383) | 0.0273***<br>(0.000434)  |
| Observations                         | 72898                     | 72898                    |
| Mean outcome                         | 0.804                     | 0.508                    |

Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The regressions include indicator variables for age, year, gender, and, years since migration (for immigrants). Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-year. Mean outcome refers to two years before passing the written exams.

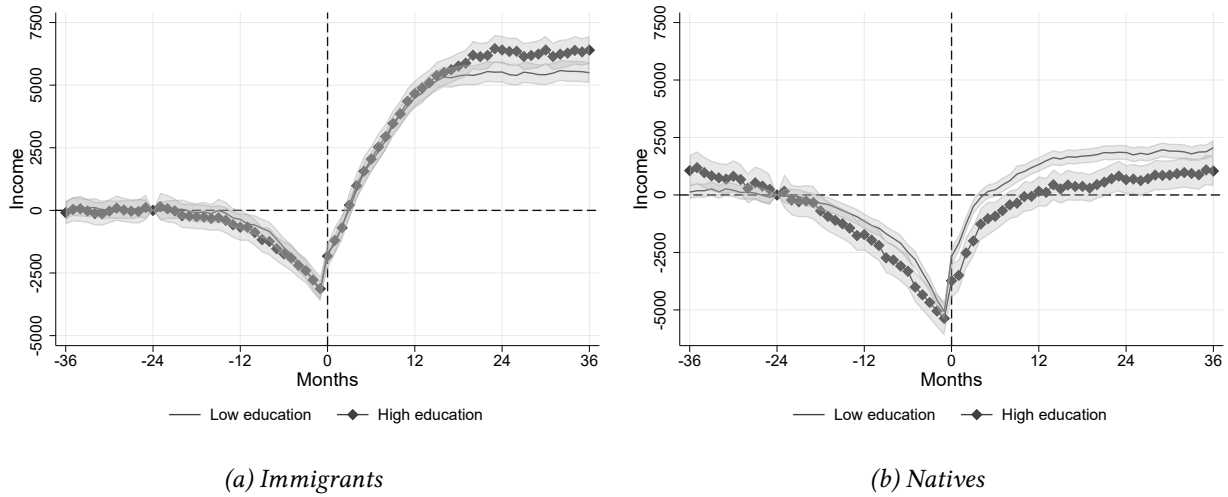
professions given their level of education. This stands in contrast with results from the same specification on the native sample. For natives, panel (b) of Figure 10, as well as column 3 of Table 12, show that higher-educated natives earn significantly less than their lower-educated counterparts. Table 13 repeats the analysis using welfare and UI benefits as outcomes, showing a statistically significant heterogeneous effect only for high-income natives' usage of welfare benefits.

The finding that more educated natives earn less than their lower-educated counterparts indicates that there is an earnings penalty for entering a lower-skilled occupation such as taxi driving instead of one that requires post-secondary schooling. The fact that high-educated immigrants do not experience this wage penalty indicates that higher-education degrees acquired abroad are difficult to use effectively in the Swedish market. The finding that higher-educated immigrants earn more than both higher-educated natives and lower-educated immigrants is in line with the phenomenon of "over-educated" immigrants who turn to low-skill occupations due to difficulties in transferring their foreign human capital to the host country.

## 6 Robustness checks

In Section 3, we describe our spell-level data are adjusted to create a monthly income measure that avoids a common practice of employers reporting year-long employment spells rather than specifying exact dates. To test for the robustness of this adjustment, we next use the unadjusted data on the subset of individuals who passed their written taxi exams during the first four months of the year, January to April. For this

Figure 10: Effects passing written exams on income by type of education



Note: “Low education” means less 12 years of education or less and “high education” means more than 12 years of education. 12 years corresponds to Swedish high school. The distribution of years of education among natives and immigrants is shown in figure 3.

Table 12: Average impact of passing written exams on labor market outcomes relative to the level of education

|                   | Immigrants           |                        | Natives              |                         |
|-------------------|----------------------|------------------------|----------------------|-------------------------|
|                   | Income               | Employment             | Income               | Employment              |
| Passing           | 4369.2***<br>(41.47) | 0.180***<br>(0.00149)  | 2107.8***<br>(34.22) | 0.131***<br>(0.000936)  |
| Event × Education | 371.7***<br>(59.57)  | 0.00356*<br>(0.00212)  | -428.4***<br>(64.40) | 0.0153***<br>(0.00163)  |
| Education         | 300.8***<br>(41.44)  | 0.0114***<br>(0.00170) | -308.7***<br>(47.98) | -0.0250***<br>(0.00132) |
| Observations      | 744381               | 744381                 | 1174935              | 1174935                 |
| Mean outcome      | 8956.6               | 0.575                  | 12576.4              | 0.755                   |

Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The regressions include indicator variables for age, year, month, gender, and, years since migration (for immigrants). “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-month. Mean outcome refers to two years before passing the written exams. Education is an indicator variable equal to one if having more than 12 years of education, and zero otherwise.

Table 13: Average impact of passing written exams on welfare and UI benefits relative to the level of education

|                          | Immigrants             |                        | Natives                 |                         |
|--------------------------|------------------------|------------------------|-------------------------|-------------------------|
|                          | No UI Benefits         | No Welfare Benefits    | No UI Benefits          | No Welfare Benefits     |
| Passing                  | 0.00183<br>(0.00467)   | 0.0379***<br>(0.00523) | -0.0140***<br>(0.00339) | 0.0245***<br>(0.00253)  |
| Event $\times$ Education | 0.00663<br>(0.00607)   | -0.00476<br>(0.00712)  | 0.00340<br>(0.00501)    | -0.00821**<br>(0.00377) |
| Education                | 0.00926**<br>(0.00465) | 0.0429***<br>(0.00558) | 0.0454***<br>(0.00387)  | 0.0166***<br>(0.00303)  |
| Observations             | 72898                  | 72898                  | 117299                  | 117299                  |
| Mean outcome             | 0.804                  | 0.508                  | 0.801                   | 0.883                   |

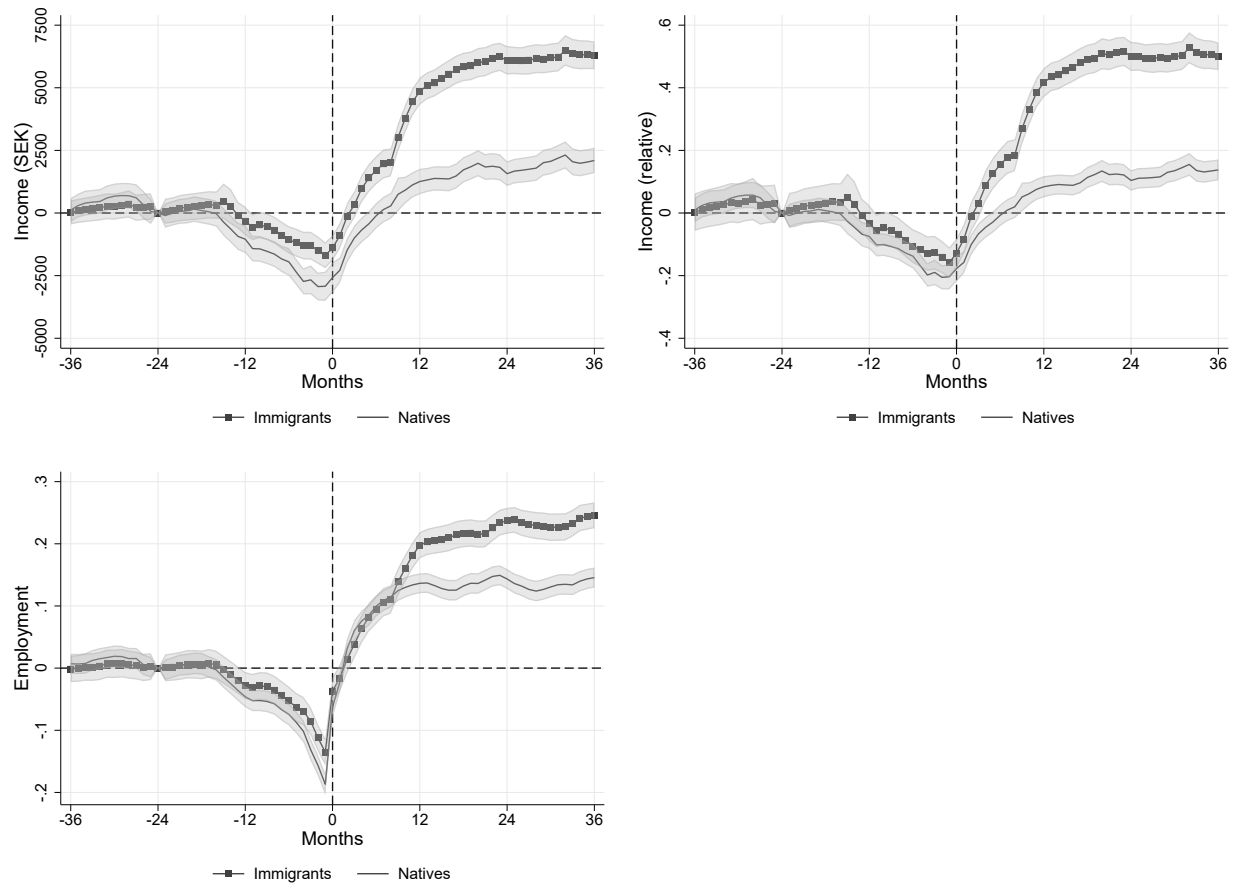
Standard errors in parentheses, \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Note: The regressions include indicator variables for age, year, month, gender, and, years since migration (for immigrants). “Passing” is the event of passing the exams. Income is income in SEK. All specifications control for fixed effects for age, year, month, gender, and, years since migration (for immigrants). Observations are individual-by-year. Mean outcome refers to two years before passing the written exams. Education is an indicator variable equal to one if having more than 12 years of education, and zero otherwise.

group, misreporting of incomes will play a smaller role as there is less scope for employers to erroneously pre-date employment spells. Thus, by comparing results in this group with those of the full sample with adjusted income data we may ascertain if our adjustments have an impact on outcomes. Figure 11 displays our results. Comparing panels (a) through (c) shows that income and employment trends follow highly similar patterns in this subgroup compared to the full sample in which we adjust incomes. This is reassuring as it indicates that our results are not due to our adjustments of employment-spell data.

Recent advances in difference-in-differences and event-study methodology have highlighted certain specification issues inherent to these models. In particular, bias may arise with a staggered treatment design combined with heterogeneous or dynamic treatment effects. The core of the problem with standard methods lies in the control group being incorrectly specified. For staggered treatments, Goodman-Bacon (2021) shows that the two-way fixed effects estimator is a weighted average of 4 different types of comparisons. One type of comparison uses already treated observations as a control group, even though their outcomes may still be dynamically affected by the treatment. To avoid the potential biases of standard methods, we next apply the imputation estimator developed by Borusyak et al. (2021), which is robust to these issues. A key feature of the estimator is that it exploits never-treated units in the control group to create better comparisons, most notably for long-run estimates. The imputation estimator works as follows. First, it uses only never-treated and not-yet-treated observations to estimate the model’s basic parameters, namely the individual and time-fixed effects. Second, these parameters are used to impute counterfactual outcomes for treated observations. Third, comparisons are made between treated observations and their

Figure 11: Impact of passing written exams on labor market outcomes (January–April)

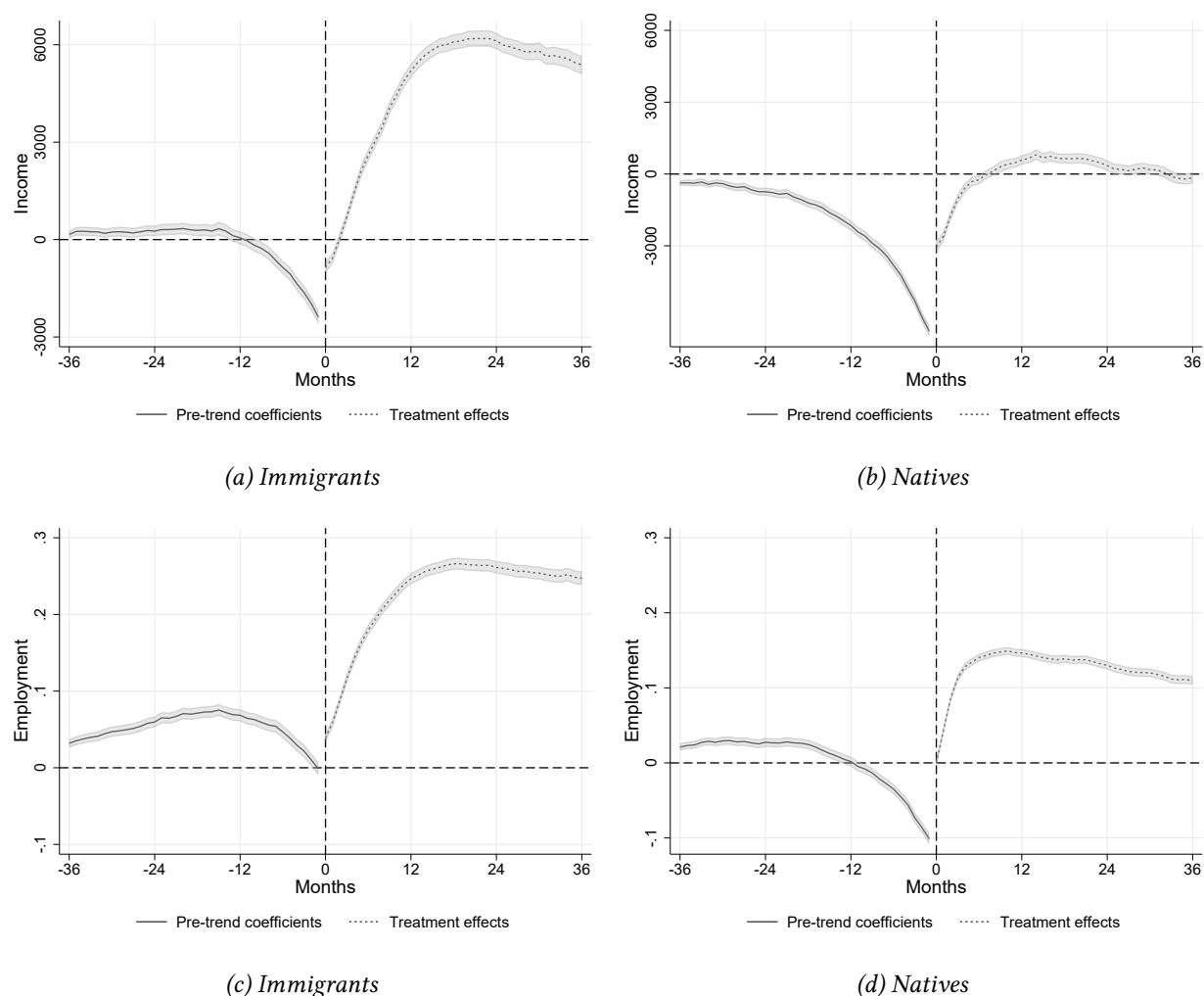


Note: The figures show the same regressions as figures as in figure 6 but only for individuals passing the tests between January and April.

counterfactual imputed values, which are then aggregated using appropriately chosen weights to estimate ATT.

Figure 12 displays our results for income and employment outcomes using the Borusyak et al. (2021) imputation estimator. For immigrants in panel (a), pre-treatment patterns are very similar to our results in Figure 6. Post-treatment outcomes are also similar: incomes rise rapidly starting in the month of passing exams and reach a peak between 12 and 24 months later. Compared to our baseline model, however, incomes show a decreasing trend between 24 and 36 months after treatment. This may indicate that there is some catch-up of the control group to those who pass taxi exams. Nevertheless, incomes for those who passed the taxi exams remained substantially higher in levels throughout the sample period.

Figure 12: Impact of passing written exams on labor market outcomes including never treated



Note: “Income” is given in Swedish Krona. “Employment” is equal to one if the individual has an income  $> 0$ , and zero otherwise. The graphs include also individuals that never take or pass the written tests to become taxi drivers. The graphs are produced using the approach proposed by Borusyak et al. (2021).

The pattern of results is different for native Swedes, shown in panel (b). Here, the imputation estimator

indicates that while natives' incomes do rise after treatment, income increases are notably smaller than in our baseline models, leading treatment and control groups to have the same level of income 36 months after treatment. Similar to the case with immigrants, estimates show a small declining trend over time which is not observed in our baseline models. This may be due to the inclusion of the never-treated group, which over time is on an increasing income trend and therefore catch up to the treated individuals.

Panels (c) and (d) display our results using employment as an outcome. Here, post-treatment results for both immigrants and natives are similar to what our baseline models indicate. Interestingly, therefore, the imputation estimator indicates that natives increase their employment rates significantly over time compared to the control group, but that incomes do not differ. Overall, applying a robust event-study estimator we find similarly large and positive effects for immigrants, albeit with indications that the effect is attenuated somewhat over time. By contrast, the results for natives suggest that their returns to taxi driving are much smaller than for immigrants and close to zero. Thus, it is important to interpret the results from our baseline model for natives with caution.

## 7 Conclusions

Despite difficulties faced by many immigrants in finding employment in high-income countries, certain sectors of the economy accommodate large shares of immigrants into their workforce. This paper focuses on one such sector – taxi driving – and estimates the impact of access to the taxi labor market separately for non-Western immigrants and native-born Swedes. To do so, we use individual-level data on written taxi exams as a determinant of who has access to the taxi labor market. We then apply an event-study design to study individuals who pass the necessary written exams required to obtain a taxi license.

Our results indicate that taxi driving plays a different role for immigrants and native-born Swedes. Immigrants see large and persistently positive effects on their monthly incomes, with average relative increases of 50 percent over pre-taxi income levels. In addition, immigrants who pass the taxi driver exams become substantially less likely to rely on means-tested welfare benefits. Native-born Swedes experience smaller positive or potentially zero effects on income relative to pre-taxi averages, but still, have higher rates of employment.

Moreover, our results indicate that selection into taxi driving coincides with declining labor market outcomes starting roughly 12 months prior to passing taxi exams. We discuss the implications for the parallel trends assumption as well as for interpretation of our estimates as causal, arguing that our pattern of results is unlikely to have occurred in the absence of individuals entering the taxi labor market. Estimates are not driven by the poor pre-treatment incomes artificially amplifying post-treatment effects as results are robust to dropping 12 months of observations before passing exams. Mean reversion is also unlikely to explain our results: a separate event study on a matched sample shows that individuals who experience a negative income shock have persistently lower incomes in the subsequent five years. By contrast, our results indicate that individuals catching up to and surpass their previous incomes. Indeed, both of these robustness tests indicate that our estimates represent lower bounds on the causal effect of passing taxi exams.



The fact that we observe substantially larger effects for immigrants, both in absolute and relative terms, is consistent with outside options in the labor market being very different across these groups. Whereas taxi driving constitutes one occupation among many for natives, the alternatives for immigrants appear to be fewer, thus yielding larger effects when compared to their relative control groups. Analysis of heterogeneous effects supports this hypothesis, as effects are largest for recently-arrived immigrants, who have less experience in location-specific skills. Moreover, many more highly educated individuals take up taxi driving among immigrants than natives. Highly educated immigrants have higher post-taxi earnings compared to lower-educated immigrants, while the opposite is true for natives. We take this to indicate that outside options are generally lower for highly educated immigrants, compared to highly educated natives, in line with studies finding foreign-acquired human capital having lower economic returns (Friedberg, 2000).

Applying the recent event-study methodology of Borusyak et al. (2021) shows that our results for immigrants are robust to issues such as heterogeneity in treatment effects. However, these results indicate that the standard event-study estimates may be exaggerated for native-born Swedes. The fact that natives who enter the taxi sector regain or potentially surpass their pre-treatment income levels indicates that the taxi labor market represents an opportunity to cope with adverse labor market shocks for this group. In addition, this result further bolsters the divergence in treatment effects across immigrants and natives, highlighting the particular importance of this labor market for non-Western immigrants.

Taken together, our results indicate that the taxi labor market may represent a substantially positive earnings opportunity, especially for immigrants but also natives who experience declining labor outcomes. Moreover, the taxi sector also likely entails a positive fiscal effect, as higher incomes increase tax contributions and the lower use of social insurance systems decreases fiscal costs.

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