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Article

"Education is the driving force for labor market integration": Seven questions for Stefan Bach

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Dr. Stefan Bach, Research Associate in the Department of Public Economics at DIW Berlin

SEVEN QUESTIONS FOR STEFAN BACH

»Education is the driving force for labor market integration«

1. As part of a joint investigation, DIW Berlin and the Institute for Employment Research (IAB) in Nuremberg analyzed how investing in the labor market integration of the refugees who came to Germany in 2015 might impact the overall economy. The institutions based their analyses on a simulation model. What are the assumptions underlying this model? We examined data on the 2015 refugees and analyzed this cohort up through 2030. The likelihood is that only about 80 percent of these immigrants will actually apply for asylum, as many will leave Germany before then; what's more, only about 60 percent of the asylum seekers will actually be granted refugee status.

Ultimately, around 500,000 of these immigrants will remain in Germany—but then, of course, their family members will join them from abroad, and they will have children. The question is about how we can successfully integrate everyone into German society and the labor market.

2. What kinds of integration measures would be required? To help the refugees succeed on the German labor market, the first thing we need are language courses as well as educational offerings and professional training.
3. What kind of education backgrounds did the refugees arrive with? Overall, the 2015 refugees arrived with a relatively low level of education: two-thirds had never completed any sort of professional training. At the same time, they're relatively young and were living in crisis areas with little access to higher education.
4. What kind of macroeconomic effects will the refugee influx have in the long term? The refugees will integrate themselves into the labor market, and figures from the past show that this happens relatively quickly. After ten years, approximately 50 percent of the refugees will be integrated; over the subsequent 16 years, this figure will increase to roughly 70 percent. They will then be earning

income from their work. This income will be relatively low, however, because the productivity of these refugees isn't terribly high; nevertheless, it still leads to a higher GDP, and thus government revenue from social contributions and taxes.

5. Will integrating refugees have a positive effect on Germany in the long term? On the revenue side, the government will benefit. On the expenditure side, however, the costs of ensuring refugees' social welfare will be high in the coming years. Though the deficits will continue to shrink over the course of time, they will not be fully compensated for in the observation period. However, increased integration through measures promoting language acquisition and education opportunities can significantly reduce this deficit.
6. So these integration measures will pay off? The language and education integration measures that we've analyzed here will cost roughly 3.3 billion euros over the next few years. But the more professional training the refugees receive, the more they earn—and these higher incomes will lead to lower welfare expenditures as well as increases in tax revenue and social contributions and ultimately save the government 11 billion euros in the long term. Ultimately, strengthening the integration measures will lead to a high return.
7. What will happen if the number of refugees increases in the near future? We've calculated the effects for refugees that arrived in 2015, and these effects can be used to make basic projections about future arrivals. It gets tricky when calculating the effects on integration, however, because the more refugees there are, the more exponentially difficult integration becomes—and this could drive up the costs. Capacity bottlenecks could also lead to problems in managing the refugee influx. But Germany's aging population will become more and more evident in the next ten to fifteen years, and this means that refugees are coming at the perfect moment: provided they are well-integrated, they can fill the gaps that are bound to arise in the labor market.

Interview by Erich Wittenberg



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