

Andritzky, Jochen; Aretz, Bodo; Christofzik, Désirée I.; Schmidt, Christoph M.

**Working Paper**

## Influx of refugees: Integration as a key challenge

Arbeitspapier, No. 09/2016

**Provided in Cooperation with:**

German Council of Economic Experts

*Suggested Citation:* Andritzky, Jochen; Aretz, Bodo; Christofzik, Désirée I.; Schmidt, Christoph M. (2016) : Influx of refugees: Integration as a key challenge, Arbeitspapier, No. 09/2016, Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung, Wiesbaden

This Version is available at:

<https://hdl.handle.net/10419/161618>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## Influx of refugees: Integration as a key challenge

---

Jochen Andritzky  
(Staff of German Council of Economic Experts)

Bodo Aretz  
(Staff of German Council of Economic Experts)

Désirée I. Christofzik  
(Staff of German Council of Economic Experts)

Christoph M. Schmidt  
(German Council of Economic Experts)

Working Paper 09/2016  
December 2016

# INFLUX OF REFUGEES: INTEGRATION AS A KEY CHALLENGE

*In 2015 and 2016, more than one million refugees arrived in Germany. While granting these migrants access to the country is an expression of humanitarian responsibility, their subsequent integration into the labor market is primarily a challenge for economic policy. For a wide range of outcomes, from unemployment to the stability of social security systems, successful labour market integration holds the key to reducing long run costs from the refugee influx. This paper outlines the implications for the provision of education and training, as well as for labour market and housing policy. They comprise a sustained effort to enhance the qualifications and skills of recognised asylum applicants, reforms geared to incentivising residential construction, and measures to improve labour market flexibility and (self-)employment opportunities.*

## I. INTRODUCTION

In Europe, refugee immigration dominated the public policy debate in the second half of 2015 and the early months of 2016. After Hungary, Sweden, and Austria, Germany received the highest number of asylum applications relative to its population. Approximately 1.1 million arrivals were registered in Germany in 2015, with some 500,000 refugees arriving in the fourth quarter alone. Considering multiple registrations and transits to other countries, the Federal Ministry of the Interior estimates that 890,000 persons arrived in 2015 to seek asylum in Germany.

In the first three quarters of 2016, merely some 270,000 further arrivals were registered, mostly in the first quarter. This sharp decline in new arrivals can be attributed to border closures in the Western Balkans, an agreement with Turkey, as well as stricter asylum practices.

To assess the potential economic implications of these refugee inflows, this paper presents the available data and examines the impact on public finances, education, and labour and housing markets. While the analysis suggests that short-term fiscal outlays are sustainable, long run costs inevitably depend on the migrants' successful integration into the labour market. Considerable investment in education and training will be crucial to enhance the economic potential of recognised asylum applicants. Furthermore, existing barriers to taking up employment should be eliminated.

While section 2 provides a survey of refugee migration into Germany, section 3 highlights potential challenges of integration. Section 4 addresses challenges in three areas: education and training, labour and housing markets. Section 5 concludes with policy implications.

## II. REFUGEE MIGRATION TO GERMANY

In 2015, close to one million refugees arrived in Germany, resulting in some 477,000 asylum applications, marking a new single-year record. [↘ CHART 1 TOP LEFT](#) The previous peak of 1.1 million people was recorded between 1991 and 1994 as a result of conflicts in former Yugoslavia. At that time, refugee migration coincided with the resettlement of nearly 900,000 ethnic Germans from Eastern European countries (Koller, 1997).

Both in terms of numbers and sociodemographic characteristics, the present situation is hardly comparable to that of the early 1990s. For example, net migration from Asia to Germany reached a record high in 2015. [↘ CHART 1 TOP RIGHT](#) While in the 1990s, the country was grappling with reunification and restructuring the moribund East German economy, in 2015 the German economy was operating close to capacity, with the lowest unemployment rates for many years. Furthermore, labour market prospects are expected to remain positive in the medium term. The German labour market is expected to be short of workers over the next decade due to the ensuing demographic change.

Hence, the most significant feature of the recent refugee influx is its concentration of inflows towards the end of 2015. Nearly half of the arrivals were registered in one quarter alone. The concentration of arrivals posed serious operational challenges, such as school gyms being temporarily converted to accommodate refugees. Due to capacity bottlenecks, refugees were able to apply for asylum only after several months, and many of these applications are still being processed. For example, by the end of November 2016 the responsible Federal Office for Migration and Refugees (BAMF) still had to decide about some 490,000 asylum applications.

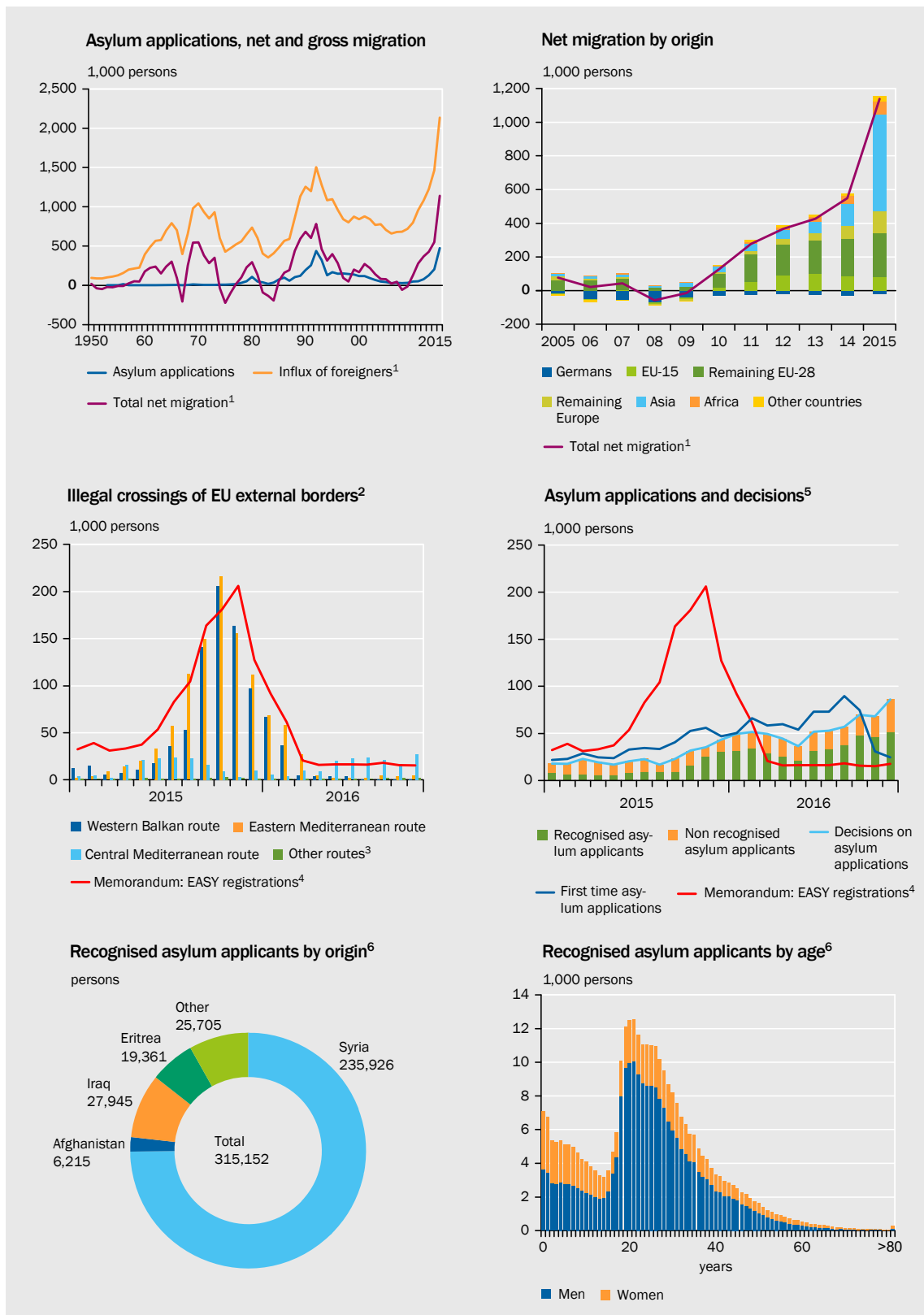
In 2016, considerably fewer additional asylum seekers were registered in Germany as crossing into the European Union (EU) became harder. The European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex) registered considerably fewer illegal border crossings on the Western Balkans and Eastern Mediterranean routes. It has so far detected only relatively minor shifts to other migratory routes. [↘ CHART 1 CENTRE LEFT](#)

Also, an agreement between Turkey and the EU in March 2016 aimed to replace irregular migration with legal channels by directly resettling one Syrian from Turkey to the EU for each Syrian returned from the Greek islands to Turkey. This agreement has so far resulted in very few additional migrants.

As a result, approximately 300,000 refugees were registered in Germany between January and November 2016. Since April 2016, the number of people newly registering as asylum seekers has remained stable at around 16,000 per month. The following analysis is based on our projection that registrations will fall to 350,000 in 2016 and further decline to 250,000 new cases annually from 2017 to 2020.

## [CHART 1](#)

### Refugee migration: Overview



1 – The numbers for the years 2008 to 2011 are not fully comparable to those of the respective previous year due to adjustments in the register of residents. 2 – The data presented refer to detections of illegal border-crossing rather than the number of persons, as the same person may cross the external border several times; source: Frontex. 3 – Western Mediterranean route, Western African route, circular route from Albania to Greece, Eastern borders route. 4 – Registration of asylum seekers in Germany; source: Federal Ministry of the Interior. 5 – Sources: Federal Office for Migration and Refugees. 6 – Individuals who received one of the following forms of protection in 2015 and in the first half of 2016: refugee protection, entitlement to asylum, subsidiary protection, national ban on deportation; source: Federal Office for Migration and Refugees.

Between January 2015 and June 2016, approximately 300,000 applications for asylum were accepted (recognised asylum applicants). [↘ CHART 1 CENTRE RIGHT](#) This corresponds to an overall protection rate of 56 %, which is high by historical comparison. Recognised asylum applicants have unrestricted access to the labour market. However, the duration of the residence permit depends on applicants' protection status:

- *Legal status as a refugee:* Recognised refugees under the Geneva Refugee Convention (Section 3 of the Asylum Law [AsylG]) and persons entitled to asylum pursuant to Germany's Basic Constitutional Law (Article 16a) initially receive a temporary residence permit for three years. Between January 2015 and June 2016, some 91 % of approved applications fell into this group. Status holders are entitled to privileged family reunion, i.e. the subsequent admission of the spouse and unmarried minor children, subject to certain conditions. If a request for family reunion is submitted within three months of the entitlement to protection being granted, the requirements of providing a secure livelihood and sufficient living space are waived.
- *Subsidiary protection:* Persons who are not granted refugee status, but are at risk of serious harm in their country of origin, can be granted protection under Section 4 of the Asylum Law. The corresponding residence permit is initially limited to one year. With the government's Asylum Package II, in effect since March 2016, the entitlement to privileged family reunion has been suspended for this group for two years. While subsidiary protection was applied to just 8 % of successful applications between January 2015 and June 2016, recognition of this protection status was instrumental in 55 % of all approved applications in the third quarter of 2016.
- *Ban on deportation:* Applicants can also receive a residence permit for at least one year if the BAMF declares that deportation is prohibited pursuant to Section 60 (5) or (7) of the German Residence Act [AufenthG]. Between January 2015 and June 2016, this status was granted in 1 % of positive decisions.

The overall protection rate does not include the temporary suspension of deportation ("toleration") by the German Länder following an unsuccessful application for asylum. A total of about 150,000 people with this "toleration status" were residing in Germany at the end of 2015.

Surveys conducted by the BAMF document the characteristics of asylum applicants recognised between January 2015 and June 2016. People from Syria submitted 40 % of asylum applications, but constituted about 75 % of recognised asylum applicants. This reflects higher recognition rates and shorter average processing times. [↘ CHART 1 BOTTOM LEFT](#) Almost 70 % of recognised asylum applicants were under 30 years old; about 70 % were male. [↘ CHART 1 BOTTOM RIGHT](#)

### III. CHALLENGES OF INTEGRATION

During the course of 2016, the slowdown of new arrivals has eased the strain of managing the influx of refugees and providing initial board and accommodation. Instead, the focus has shifted to integrating the migrants into the German society and the German economy. This raises important policy issues, particularly in regard to education and training, labour markets, and housing.

Obviously, hosting and integrating refugees come at a cost to the public sector. The German Council of Economic Experts (GCEE) has assessed direct public-sector expenditure for accommodation, board, and integration measures (GCEE Annual Report 2016, items 690 ff.). In a baseline scenario, the GCEE estimates overall direct public outlays of approximately €12.8 billion in 2016 and €10.3 billion in 2017 (0.4 % and 0.3 % of nominal GDP, respectively), quite palatable magnitudes given Germany's positive macroeconomic development.

In addition, a sustainability analysis by the GCEE provides information on the expected additional net costs in the long term. Using different scenarios, the analysis shows that long run costs hinge significantly on the successful integration of refugees into the labour market (Aretz et al., 2016). Overall, taken over the complete spectrum of scenarios, the sustainability analysis finds that the influx of refugees is unlikely to cause a significant additional long-term fiscal burden. Yet, since refugee migration will decelerate the process of aging in Germany only marginally, it is also unlikely to contribute significantly to restoring the sustainability of the country's pension, health and social security systems.

However, while being sensible from a rational vantage point, this sober assessment of the possible range of additional public incomes and expenditures might belittle the emotional aspects of this affair. Success or failure to avert a large fiscal strain on tax payers and contributors to the German systems of social security might also determine the political fate of the country. After all, no other issue has instilled so much public controversy during Chancellor Merkel's tenure as refugee migration. As the crisis in the euro area wanes, political support for right-wing political forces has further strengthened on populists' claims of failed immigrant integration.

### IV. ELEMENTS OF INTEGRATION POLICY

Recognising the paramount importance of the successful economic integration of refugees, the Federal Government has enacted the Integration Law, among other measures (GCEE Annual Report 2016, Box 25; Martín et al. 2016). This section assesses these measures and identifies further courses of action that are needed. It addresses three areas of concern, education and training, labour market access, and the availability of housing.

## Fostering education and training

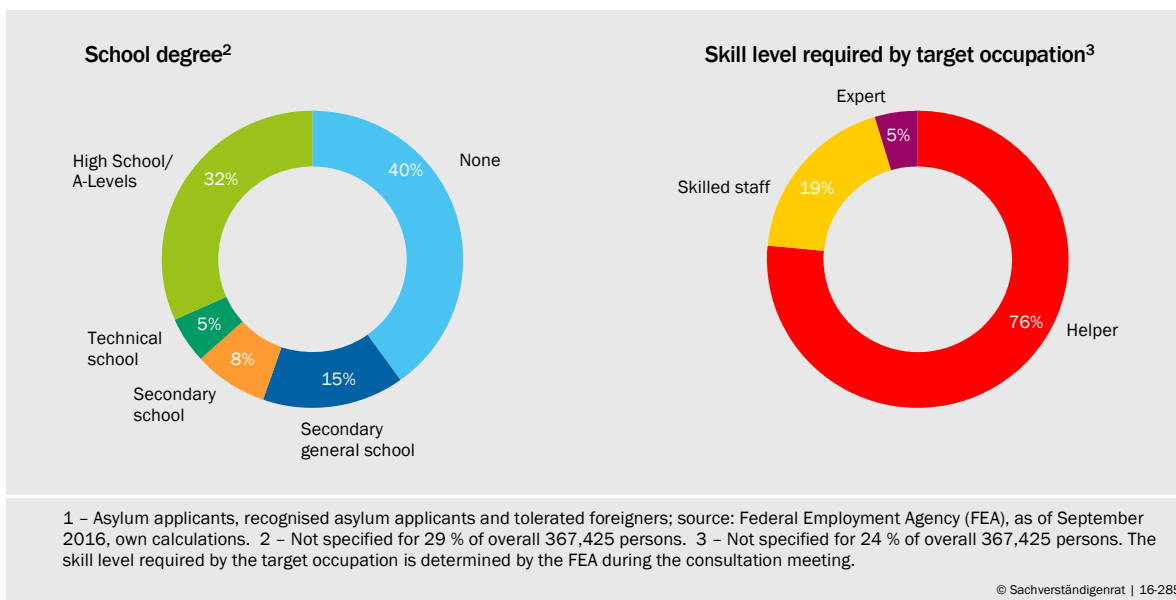
Successful integration critically depends on adapting migrants' skills to the requirements of the German labour market – and on their efforts to acquire new skills. While initially, information about refugees' qualifications and skills was quite scarce, in June 2016 the German Federal Employment Agency started publishing data about job-seeking refugees, including asylum applicants, recognised asylum applicants, and tolerated foreigners.

By September 2016, approximately 220,000 persons had provided detailed information about their qualifications. Some 40 % stated that they did not have any school degree, while 32 % reported holding a high school diploma. [↘ CHART 2 LEFT](#) This relationship is roughly in line with the IAB-BAMF-SOEP survey of refugees (Brücker et al., 2016).

However, school degrees are an imprecise indicator of available skills, as school standards tend to differ considerably. Using international student comparison tests, Wößmann (2016) estimates that some 65 % of Syrian eighth-grade students do not have universal basic skills as defined by the Organisation for Economic Cooperation and Development (OECD), compared with a rate of only 16 % in Germany. Moreover, it remains unclear to what extent the qualifications obtained in the countries of origin are relevant to the requirements of the German labour market (Bauer, 2015). Taking graduation rates at face value may be overly optimistic.

### ↘ CHART 2

**Qualification and target occupation of job-seeking refugees<sup>1</sup>**



Furthermore, linguistic and cultural barriers are likely to be greater among the most recent immigrants seeking protection than among past immigrants (GCEE Annual Report 2015, item 519). Skill-level assessments by the Federal Employment Agency at consultation meetings suggest pervasive skills-downgrading: Three quarters of the job seekers interviewed were deemed eligible only for



helper or semi-skilled jobs for which little or no formal vocational training is required. [↪ CHART 2 RIGHT](#)

A typical characteristic of the migrants is their youth. Some 27 % of asylum applicants recognised between January 2015 and June 2016 were younger than 18 years. While the recent refugee arrivals cannot turn around Germany's aging demography, refugee migration will influence younger age cohorts significantly. Between 2008 and 2013, i.e. in the years prior to the refugee inflows, the number of children and adolescents between the ages of 3 and 21 declined by over a million, or by an average of 215,000 persons per year. But in 2015, own estimates indicate that the influx of refugees increased the number children and adolescents by some 315,000.

Based on the baseline projection, migrant inflows will compensate between one and two years of demographic decline in the age group between 6 and 21 years old, and seven years in the 3-to-6-year-old age group. [↪ CHART 3](#) However, the offsetting effect will almost certainly vary considerably from region to region. As a consequence, the implications, for instance for schools, will differ locally.

Research has shown the sizeable long-run impact of childhood education on employment prospects throughout the career (Cunha and Heckman, 2007; Pfeiffer, 2016). Pre-school education appears to be particularly important for children from socially disadvantaged families and from families with migration background (Ruhm and Waldfogel, 2011; OECD, 2016a; Schneeweis, 2011). Consequently, refugees should be given liberal access to pre-school and school education, and take-up should be promoted ambitiously. Given the age profile of refugees, the fiscal implications of this challenge should not be underestimated.

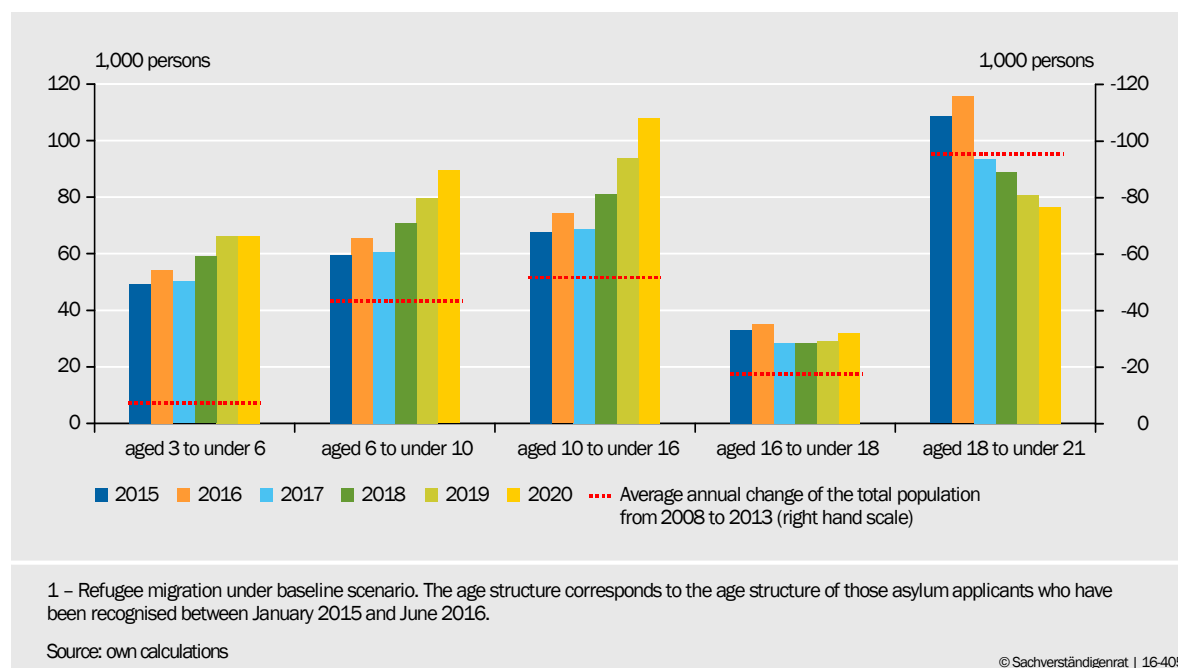
For these reasons, the allocation of sufficient funds for education is crucial. Some studies estimate that additional staffing needs will lead to high additional annual costs of between €2.2 billion and €3.2 billion for the education of asylum seekers who arrived in 2015 (Klemm, 2016; Autorengruppe Bildungsberichterstattung, 2016). The GCEE estimates markedly lower costs though, based on the age structure of recently recognised asylum applicants and average student-teacher ratios. Disregarding the otherwise declining student numbers and assuming a student-teacher ratio of eight-to-one in early-childhood education and 15-to-one in schools, the additional annual cost amounts to about €1.4 billion between 2015 and 2020. Of this amount, pre-school education would account for a hefty €350 million.

It is quite difficult to precisely forecast these additional education costs, since the recent developments are confounded by the trend of rising expenses per student: While the number of students in public schools decreased by around 7 % between 2008 and 2013, expenditure per student went up 17 % in real terms during the same period. This inverse relationship holds for public elementary, main, and middle schools, as well as for grammar and vocational schools. Possible explanations include increased supervision efforts for inclusion, smaller class sizes, and changes in the school structures, for example through the expansion of full-day care. It seems wise to expect this trend to continue when assessing the

additional costs of providing the new cohorts of children with educational and training services.

### ➤ CHART 3

Change in population of children and adolescents from refugee migration<sup>1</sup>



Education and training of refugees is an investment to enhance their productivity and facilitate their integration into the labour market and society. Initially, the focus should be on language skills as they are essential for professional education such as vocational and specialist training. Particular attention should be given to children's education. Learning together with native children can boost their linguistic and cultural integration (Aktionsrat Bildung, 2016).

However, classes with too high a share of non-native children can hinder integration and hurt academic performance (De Paola and Brunello 2016; Borgna and Contini, 2014; Wößmann, 2016). Classes exclusively for non-native children should be used only as a temporary solution, for example when schools are inundated by new arrivals.

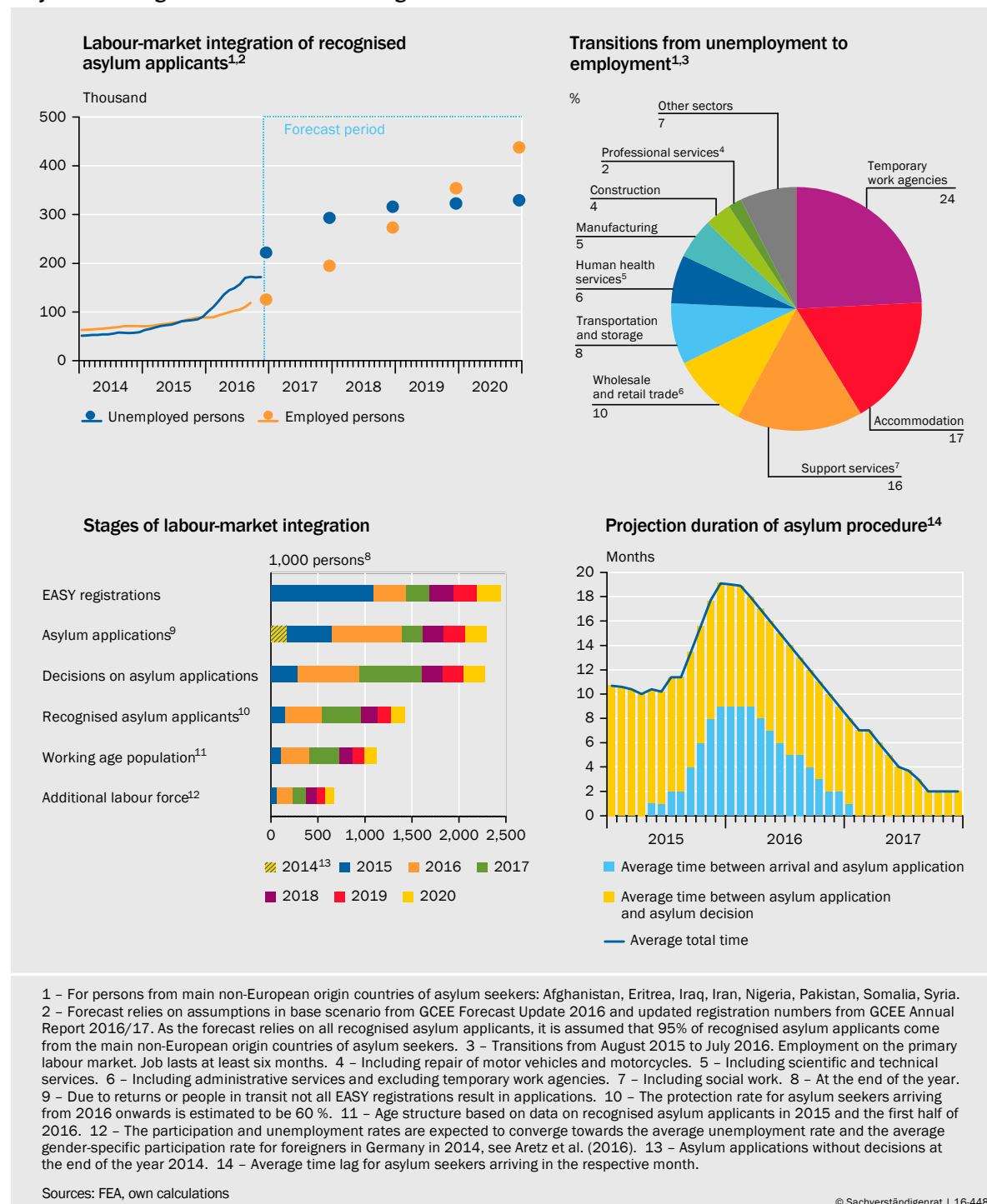
## Boosting labour market integration

Between December 2014 and September 2016, roughly 40,000 refugees are estimated to have taken up employment in Germany. ➤ [CHART 4 TOP LEFT](#) From December 2014 to November 2016, approximately another 110,000 refugees are estimated to have registered as unemployed. However, because German labour market statistics do not include immigration status, these estimates are derived by using data on all nationals from Afghanistan, Eritrea, Iraq, Iran, Nigeria, Pakistan, Somalia, and Syria, i.e. the main non-European countries of origin of asylum seekers.

This cohort appears to find work primarily in similar industries as other previously unemployed people who re-enter employment (GCEE Annual Report 2016, item 766). ↘ **CHART 4 TOP RIGHT** Some 24 % of previously unemployed persons from these countries took up jobs through temporary work agencies or in the accommodation and other service sectors.

#### ↘ CHART 4

#### Projections of a gradual labour-market integration



Going forward, the integration of refugees into the German labour market will likely involve only a fraction of the refugees who arrived initially, and it will take a considerable amount of time. These two effects will limit potential effects of

refugee migration on the labour force in the medium term. On the one hand, the number of actual job seekers is likely much smaller than the number of refugees who initially registered in Germany. ↘ [CHART 4 BOTTOM LEFT](#) Due to transit and double counting, not every person registered will submit an asylum application. In addition, a considerable share of asylum applicants will be rejected and never enter the labour market. Finally, a large share of recognised asylum applicants is not of working age or, reflecting more traditional gender roles, is unlikely to participate in the labour market.

On the other hand, processing asylum applications, completing qualification measures, and taking up work will consume considerable time. Limited capacity in 2015 led to a considerable processing backlog in the asylum bureaucracy. As a result, asylum seekers who arrived before the spring of 2016 must expect their application to take up to 19 months to process on average. ↘ [CHART 4 BOTTOM RIGHT](#)

To gauge the time needed to take up work, the GCEE used insights from the IAB-SOEP migration sample which is based on previous experience with refugees (Brücker et al., 2015). Starting from a rate of below 10 % in the year of their arrival, the employment rate among refugees rises quickly to around 50 % after five years, and reaches that of other migrant groups after around 13 years. On this basis the GCEE reckons that the number of unemployed refugees will increase further in 2017, exceeding the number of refugees in employment. ↘ [CHART 4 BOTTOM LEFT](#) In 2018, employment is expected to accelerate so that from 2019 onwards the number of employed exceeds the number of unemployed refugees.

However, there is some uncertainty as to whether integration will indeed progress similarly as in the IAB-SOEP migration sample. On one hand, the profiles of current refugees differ from previous migrants when it comes to country of origin and cultural background. On the other hand, administrative capacities and economic circumstances are different from those in previous periods of high immigration. In recent years, integration policy and administrative structures have improved markedly, a result, for example, of early competence assessment and reforms of language teaching and the provision of labour-market access (OECD, 2016b). Consequently, Germany is probably better equipped to integrate refugees than it was in the past (Liebig, 2016).

Evidence from the US underpins the hypothesis that the personal circumstances of refugees can positively influence their work ethic. While initially earning lower wages and working fewer hours, refugees in the US tend to catch up over time. After ten years, they achieve higher wages and work more hours than other migrant groups of the same cohort (Cortes, 2004). One possible explanation is that refugees are less likely than other migrants to return to their home country, whereby permanent immigration provides a greater incentive to invest in human capital than temporary stays (Dustmann and Görlach, 2016).

The effects of these new labour market entrants on the domestic labour force are expected to be limited. Refugees are likely to compete primarily against other workers with similarly low training and skills, leaving a large share of the German labour force unaffected. Previous empirical evidence does also not indicate

notable crowding-out effects (GCEE Annual Report 2010 Box 17; Friedberg and Hunt, 1995; Longhi et al., 2010).

Some empirical studies of ethnic German immigration from Eastern Europe in the early 1990s show slightly negative employment effects only in the short run, in particular for the low-skilled (Glitz, 2012). Other studies, by contrast, find no aggregate employment effects (D'Amuri et al., 2010; Brücker and Jahn, 2011). Regarding wage effects, evidence from the UK indicates that immigration reduces the wages of natives in the lowest quintile, and even slightly contributes to wage growth at the upper part of the distribution (Dustmann et al., 2013).

An exogenous supply shock caused by migration may also have positive displacement effects. Foged and Peri (2016) examine the effects of an inflow of refugees with a low level of education, suitable primarily for manual work, on the employment of the low-skilled domestic population in Denmark. Results indicate an upward movement in the job structure as domestic workers transition from manual to more complex jobs and earn higher wages.

In sum, in addition to the provision of measures of active labour market policy, it would be helpful to ensure that the labour market offers supportive conditions for refugees' labour market integration. They should include rapid and reliable asylum procedures, access to integration measures even during processing, and a well-functioning labour market (Bauer, 2015). Basic language skills are key to accessing the labour market and also ensure social participation and integration (European Commission and OECD, 2016; Liebau and Schacht, 2016). Policymakers also need to consider refugees' desire to earn income as early as possible. This must be weighed against the benefit of more thorough training which may initially inhibit refugees from earning income.

## Preventing adverse segregation

Newly arriving immigrants tend to settle near other migrants of the same ethnic origin (Bartel, 1989; Edin et al., 2004; Glitz, 2012). A resulting geographical concentration of immigrants raises the risk of segregation. Segregation can affect the success of labour market integration, though this can be good or bad. Ethnic networks with high education levels can stimulate incentives for further and advanced training, while ethnic networks with a lower education level can reduce training and employment opportunities (Romiti et al., 2015; Borjas, 1995; Damm, 2009).

Settlement concentrations can also be a challenge for the provision of public services, widening the divergence between growing and shrinking regions as immigrants move to metropolitan areas (Altemeyer-Bartscher et al., 2016). Since most recognised asylum applicants will initially be dependent on social services, settlement concentrations also lead to an uneven distribution of costs among the municipalities, which are only partially cushioned by fiscal transfers as part of the financial equalisation scheme. Note that the initial regional distribution of

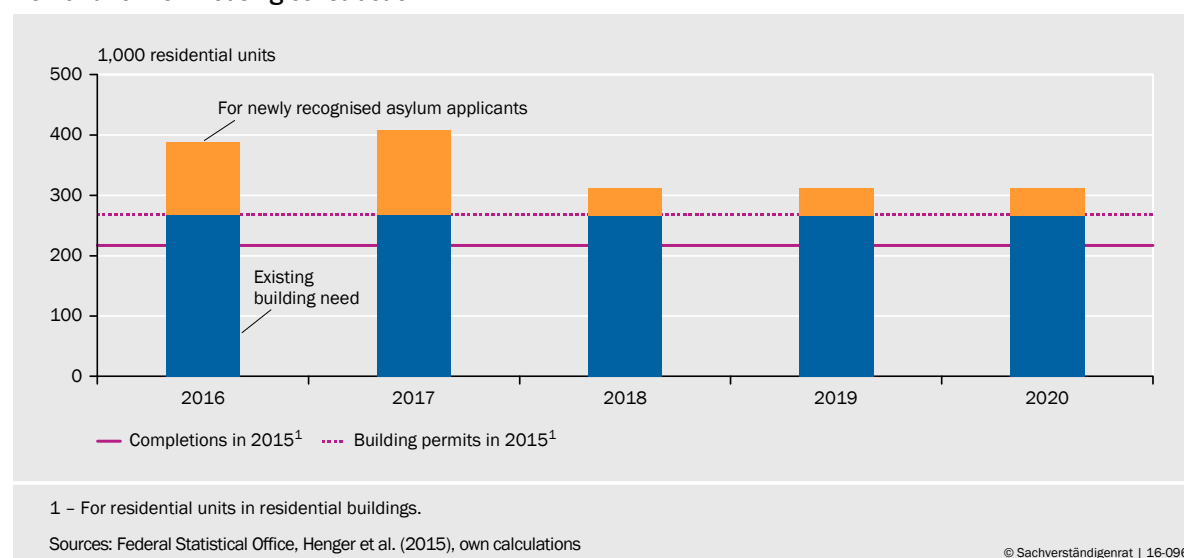
asylum seekers across municipalities is the responsibility of each respective federal state.

Immigration is likely to intensify pressures on housing markets in some regions in Germany (GCEE Annual Report 2013, items 347 ff.; Aiyar et al., 2016). Although the number of completed residential units increased from 150,000 to 250,000 per annum between 2010 and 2015, the current level of construction activity remains insufficient to meet housing demand in the medium term. The situation compares to previous episodes of high immigration (Glitz, 2012). For instance, at the time of ethnic German repatriations in the 1990s, transitional hostels were set up and remained in use for several years (Koller, 1997).

Previous estimates for housing demand from 2015 to 2020 assumed a need for an additional 270,000 residential units per year (Henger et al., 2015), without taking into account additional demand from refugees. [↗ CHART 5](#) The GCEE estimates additional demand from asylum applicants recognised between the second half year of 2016 and 2020 at 340,000 residential units. As construction activity already rose in 2016, there will be no significant shortage of housing for asylum applicants recognised prior to that year. We assume an average apartment size and the average living space needs of welfare recipients as recorded by the 2011 Census. This implies an average household size of just over 3 members.

#### [↗ CHART 5](#)

##### Demand for new housing construction



Germany is characterized by a considerable heterogeneity of regions in terms of housing markets. A considerable number of units totalling 1.7 million housing units stand empty, a large part of which is concentrated in the eastern part of the country. [↗ CHART 6 LEFT](#) Here, high vacancy rates are often associated with inferior employment prospects and high levels of unemployment. [↗ CHART 6 RIGHT](#)

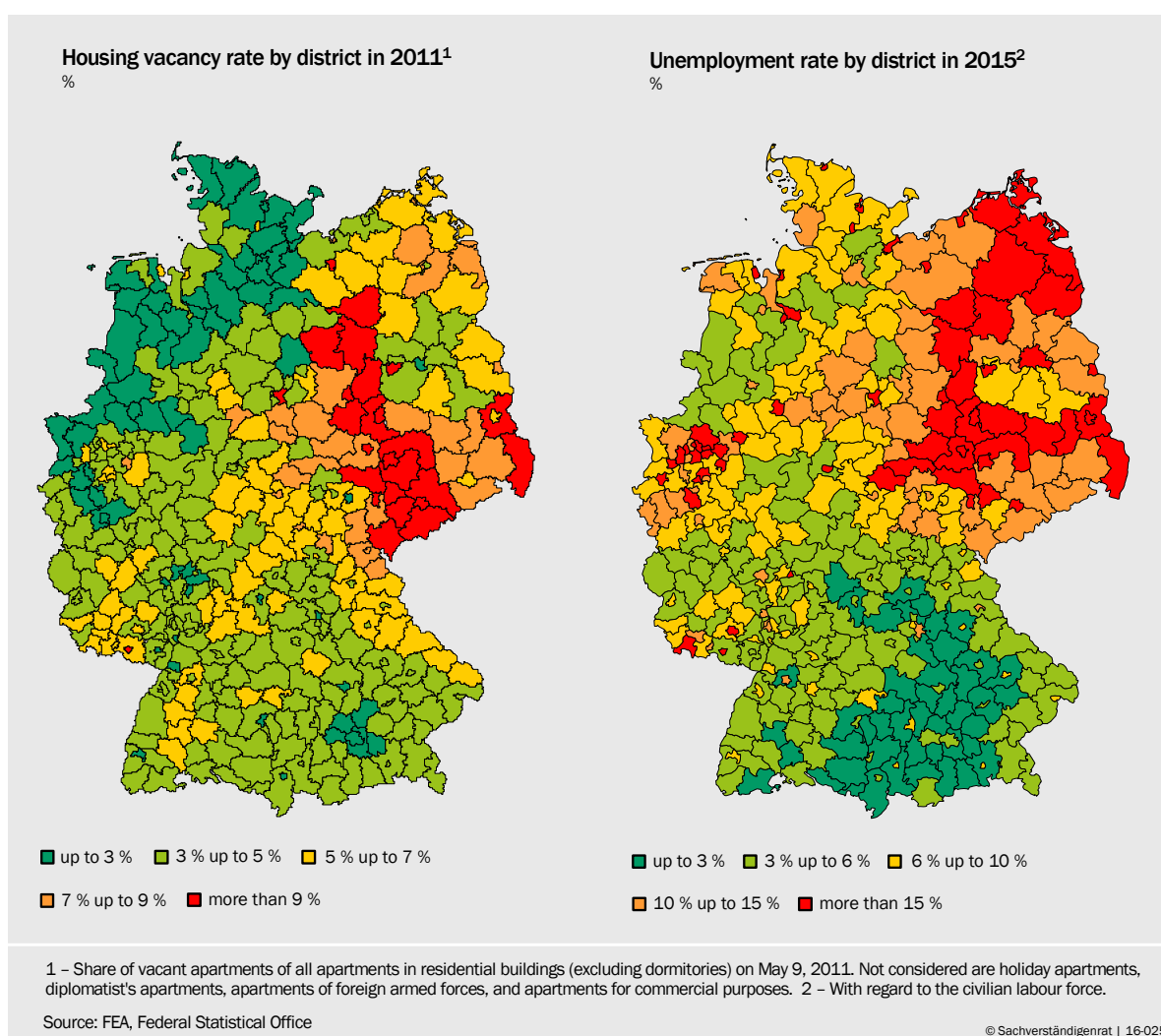
The risk of adverse segregation, housing shortages, and the overburdening of some metropolitan areas has prompted demands for placing restrictions on where new refugees can settle. The Integration Law, which was passed by the Bundestag in July 2016, enables states to temporarily allocate recognised asylum

applicants to a specific place of residence. Under this rule, recognised asylum applicants must for the first three years remain in the federal state to which they were assigned on arrival. Each state is responsible for assigning a place of residence and for the geographical distribution of recognised asylum applicants. Refugees can also be barred from living in certain areas (*Zuzugssperre*). There are exceptions for recognised asylum applicants in training or employment.

The aim of the law is to prevent adverse segregation, improve integration, and ease the pressure on municipal administrations and budgets. However, restricting mobility will lead to some negative effects, although these are likely to be mitigated by the exceptions for people in employment and the possibility of regional differentiation. Evidence from Denmark and Sweden suggests refugees distributed to regions on the basis of housing vacancies have been less successful in finding employment than those distributed according to employment-related criteria (Damm and Rosholm, 2005; Edin et al., 2004). The OECD (2016c) recommends taking employment prospects into account in the distribution process.

#### ↘ CHART 6

#### Employment chances and available housing space in regional comparison





A similar law, in this case prescribing the place of residence for ethnic German immigrants on income support, was in force from 1996 to 2009 (*Wohnortzuweisungsgesetz*). Its goal was a more balanced geographical distribution of immigrants. Despite its national reach, the law failed to prevent segregated concentrations of immigrants in metropolitan areas and social “hot spots” as public housing projects were expanded (Haug and Sauer, 2007).

In sum, it is questionable whether residence regulations of the Integration Law will prevent adverse segregation. Mobility restrictions may bring advantages in the short run. The law’s regional applicability and appropriate exemptions help to limit any adverse effects (Expert Council of German Foundations on Integration and Migration, 2016a). However, in the longer term, mobility restrictions could result in poorer earnings prospects and higher unemployment. Mobility restrictions over longer periods of time should therefore be avoided.

## V. THE POLITICAL AGENDA

The influx of a substantial number of refugees poses a challenge to the whole of Europe, straining the EU’s ability to act. Given the EU’s open internal borders, national migration policies exert substantial external effects on other European economies. It is of paramount importance that EU member states soon agree on common rules regulating migration into Europe, Germany included. More than simply finding and signing an agreement, it is the compliance with, and enforcement of these rules which will be of utmost importance.

Policies should aim to lower incentives to migrate by improving the situation in crisis countries and securing the EU’s external borders. Member states must also finally agree on a more balanced geographical distribution of refugees. To reflect additional regional burdens, funds from the EU budget should be reallocated to support suitable programmes. However, invoking the “exceptional circumstances”-clause in the Stability and Growth Pact should be avoided.

Integrating recognised asylum applicants into the German society will require their successful and sustainable labour market integration. The Integration Law represents an important first step to this end by strengthening incentives for integration and training. Yet many more years of effort will be required to achieve these goals. For example, great effort will be needed to convince young immigrants that investing in education and qualifications pays off in the long term, even if it means passing up earnings opportunities in the short term.

Delays in asylum processing should be used for language training and preparation for labour market entry. To this end, it is important to assess refugees’ qualifications and language skills at an early stage. As stated in the Integration Law, the use of educational opportunities should both be required and promoted, for example through incentives for participation in training.



Vocational training is required to access many areas of the German labour market. Such a rigid system is unknown in many asylum seekers' countries of origin. To give recognised asylum applicants labour-market opportunities in line with their skills and qualifications, access to professional training should be granted based on optional entrance exams (GCEE Annual Report 2016, item 705). Also, professional training based on shortened curricula for partial qualifications should be offered. Many asylum applicants enter the German education system at a higher age. Exceptions should therefore ensure that age limits, e.g. for attending school, do not restrict educational opportunities.

In the past, the provision of subsidised jobs has not proven effective. However, the Integration Law foresees the creation of 100,000 additional job opportunities (“one-euro jobs”) in the area of community work. Given the current exceptional circumstances, these might familiarise asylum seekers with the German labour market during lengthy asylum procedures. But they must not compromise language learning and other training opportunities (Expert Council of German Foundations on Integration and Migration, 2016b).

The labour agencies’ priority review (*Vorrangprüfung*) should be abolished and not just be suspended, as it now is in certain regions. The obligation to check whether alternative applicants from Germany or the EU are available is of questionable effectiveness and brings with it considerable administrative burden. Wage subsidies for migrants in the past have been a promising tool in the short run. Asylum applicants should not, however, be privileged when it comes to labour market measures. Rather, labour market flexibility should be enhanced more broadly to allow the better absorption of new entrants including migrants.

In addition, expanding flexible work arrangements could help labour market integration. Unfortunately, recent reforms of temporary work (*Zeitarbeit*) and contract work (*Werkverträge*) conflict with this aim. Furthermore, self-employment is an area of the labour market which has low entry barriers and is already used frequently by migrants (Metzger, 2016). Allowing better access to currently protected markets in some services could promote self-employment. Finally, while mobility restrictions can be a useful short-term measure, they should be avoided over the long term as they can raise joblessness and inhibit earnings prospects.

## REFERENCES

Aiyar, S. et al. (2016), *The refugee surge in Europe: Economic challenges*, IMF Staff Discussion Note 16/02, Washington, DC.

Aktionsrat Bildung (2016), *Integration durch Bildung. Migranten und Flüchtlinge in Deutschland*, Waxmann Verlag, Münster.

Altemeyer-Bartscher, M., O. Holtemöller and M. Wieschemeyer (2016), *Zur räumlichen Verteilung von Flüchtlingen im Föderalstaat*, ifo Schnelldienst 4/2016, 43–49.

D’Amuri, F., G.I.P. Ottaviano and G. Peri (2010), *The labor market impact of immigration in Western Germany in the 1990s*, *European Economic Review* 54 (4), 550-570.

- Aretz, B., D.I. Christofzik, U. Scheuering and M. Werding (2016), *Auswirkungen der Flüchtlingsmigration auf die langfristige Tragfähigkeit der öffentlichen Finanzen*, Arbeitspapier 06/2016, Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Wiesbaden.
- Autorengruppe Bildungsberichterstattung (2016), *Bildung in Deutschland 2016*, W. Bertelsmann Verlag, Bielefeld.
- Bartel, A.P. (1989), Where do the new U.S. immigrants live?, *Journal of Labor Economics* 7, 371–391.
- Bauer, T.K. (2015), Schnelle Arbeitsmarktintegration von Asylbewerbern – Was ist zu tun?, *Zeitschrift für Wirtschaftspolitik* 64, 305–313.
- Borgna, C. and D. Contini (2014), Migrant achievement penalties in Western Europe: Do educational systems matter?, *European Sociological Review* 30, 670–683.
- Borjas, G.J. (1995), Ethnicity, neighborhoods, and human-capital externalities, *American Economic Review* 85, 365–90.
- Brücker, H., A. Hauptmann and E. Vallizadeh (2015), *Flüchtlinge und andere Migranten am deutschen Arbeitsmarkt: Der Stand im September 2015*, Aktuelle Berichte 14/2015, Institut für Arbeitsmarkt und Berufsforschung, Nürnberg.
- Brücker, H. et al. (2016), *Flucht, Ankunft in Deutschland und erste Schritte der Integration*, BAMF-Kurzanalyse 5/2016.
- Brücker, H. and E. Jahn (2011), Migration and wage-setting \* reassessing the labor market effects of migration, *The Scandinavian Journal of Economics* 113 (2), 286–317.
- Cortes, K.E. (2004), Are refugees different from economic immigrants? Some empirical evidence on the heterogeneity of immigrant groups in the United States, *Review of Economics and Statistics* 86, 465–480.
- Cunha, F. and J. Heckman (2007), The technology of skill formation, *American Economic Review* 97, 31–47.
- Damm, A.P. (2009), Ethnic enclaves and immigrant labor market outcomes: Quasi-experimental evidence, *Journal of Labor Economics* 27, 281–314.
- Damm, A.P. and M. Rosholm (2005), *Employment effects of spatial dispersal of refugees*, Arbeitspapier 2005–3, Københavns Universitet, Kopenhagen.
- Dustmann, C., T. Frattini and I.P. Preston (2013), The effect of immigration along the distribution of wages, *Review of Economic Studies* 80, 145–173.
- Dustmann, C. and J.S. Görlach (2016), The economics of temporary migrations, *Journal of Economic Literature* 54 (1), 98–136.
- Edin, P.-A., P. Fredriksson and O. Åslund (2004), Settlement policies and the economic success of immigrants, *Journal of Population Economics* 17, 133–155.
- European Commission and OECD (2016), How are refugees faring on the labour market in Europe? – A first evaluation based on the 2014 EU Labour Force Survey ad hoc module, Joint Working Paper, Brussels.
- Expert Council of German Foundations on Integration and Migration (2016a), *SVR nennt Kriterien für eine etwaige Wohnsitzauflage für anerkannte Flüchtlinge: Integrationsperspektive muss Vorrang haben*, Pressemitteilung, Sachverständigenrat deutscher Stiftungen für Integration und Migration, Berlin, 16. Februar.
- Expert Council of German Foundations on Integration and Migration (2016b), *SVR zum Integrationsgesetz: Frühe Integrationsförderung und Eingliederung in Regelsysteme konsequent ausweiten*, Pressemitteilung, Sachverständigenrat deutscher Stiftungen für Integration und Migration, Berlin, 19. Mai.
- Foged, M. und G. Peri (2016), Immigrants' effect on native workers: New analysis on longitudinal data, *American Economic Journal: Applied Economics* 8, 1–34.
- Friedberg, R.M. und J. Hunt (1995), The impact of immigrants on host country wages, employment and growth, *Journal of Economic Perspectives* 9, 23–44.
- Glitz, A. (2012), The labor market impact of immigration: A quasi-experiment exploiting immigrant location rules in Germany, *Journal of Labor Economics* 30, 175–213.
- Haug, S. and L. Sauer (2007), *Zuwanderung und Integration von (Spät-)Aussiedlern - Ermittlung und Bewertung der Auswirkungen des Wohnortzuweisungsgesetzes - Abschlussbericht*, Forschungsbericht 3, Bundesamt für Migration und Flüchtlinge, Nürnberg.

- Henger, R., M. Schier and M. Voigtländer (2015), Baubedarfe: Stadt und Land fallen auseinander, *Wirtschaftsdienst* 11, 716–718.
- Klemm, K. (2016), Schülerinnen und Schüler aus Flüchtlingsfamilien: Eine Expertise zum Personalbedarf, Expertise für den nationalen Bildungsbericht 2016, Essen.
- Koller, B. (1997), Aussiedler der großen Zuwanderungswellen - was ist aus ihnen geworden?, *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung* 30, 766–789.
- Liebau, E. and D. Schacht (2016), Spracherwerb: Geflüchtete schließen zu anderen MigrantInnen nahezu auf, *DIW Wochenbericht* 35/2016, 741–748.
- Liebig, T. (2016), Präsentation „OECD Internationaler Migrationsausblick und Herausforderungen der Flüchtlingskrise“ vom 22. September, <http://www.oecd.org/berlin/publikationen/international-migration-outlook-2015.htm>, last downloaded on 2016-17-10.
- Longhi, S., P. Nijkamp und J. Poot (2010), Joint impacts of immigration on wages and employment: Review and meta-analysis, *Journal of Geographical Systems* 12, 355-387.
- Martín, I. et al. (2016), From refugees to workers: Mapping labour-market integration support measures for asylum seekers and refugees in EU member states - Volume I: Comparative analysis and policy findings, Bertelsmann Stiftung, Gütersloh.
- Metzger, G. (2016), *Migranten überdurchschnittlich gründungsaktiv - Arbeitsmarkt spielt große Rolle*, Fokus Volkswirtschaft Nr. 115, Kreditanstalt für Wiederaufbau, Frankfurt am Main.
- OECD (2016a), *What are the benefits from early childhood education?*, Education Indicators In Focus 42, Organisation for Economic Co-operation and Development, Paris.
- OECD (2016b), *International migration outlook*, Organisation for Economic Co-operation and Development, Paris.
- OECD (2016c), *Making integration work: Refugees and others in need of protection*, Organisation for Economic Co-operation and Development, Paris.
- de Paola, M. and G. Brunello (2016), *Education as a tool for the economic integration of migrants*, IZA Discussion Paper 9836, Bonn.
- Pfeiffer, F. (2016), Ein Plädoyer für mehr optimale öffentliche Bildungsinvestitionen, *Wirtschaftsdienst* 96, 467–470.
- Romiti, A., P. Trübswetter and E. Vallizadeh (2015), *Das soziale Umfeld gibt die Richtung vor*, IAB-Kurzbericht 25/2015, Nürnberg.
- Ruhm, C. and J. Waldfogel (2011), *Long-term effects of early childhood care and education*, IZA Discussion Paper 6149, Bonn.
- Schneeweis, N. (2011), Educational institutions and the integration of migrants, *Journal of Population Economics* 24, 1281–1308.
- Wößmann, L. (2016), Bildung als Schlüssel zur Integration: Nur eine realistische Flüchtlingspolitik wird Erfolg haben, *ifo Schnelldienst* 1/2016, 21–24.