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Article

Introduction

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Fuest, Clemens (2016) : Introduction, CESifo Forum, ISSN 2190-717X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 17, Iss. 3, pp. 8-13

This Version is available at:

<https://hdl.handle.net/10419/166661>

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Introduction

CLEMENS FUEST

Ifo President

Professor of Economics and Public Finance,
University of Munich

Dear Mr Schaefer,
Excellencies,
Ladies and gentlemen,

It is my pleasure to welcome you all to this year's Summit. I am very glad that this joint endeavour exists for a number of reasons: most importantly because I believe that dialogue and debate between academia and decision-makers from the public sector and the economy at large is essential to achieving progress.

Today I would like to talk about the economic aspects of migration, which is the subject of our Summit. There are many other facets of migration, including its political and cultural dimensions; but I would like to focus on the economics of migration and on the immigration countries. There is a great deal to be said about the emigration countries and, as Mr Schaefer mentioned, a pressing issue is what can be done to stabilise the emigration countries and tackle the push factors of migration; but I would like to focus here on the immigration countries.

Figure 1 shows opinion polls in Europe. These polls reveal that, between 2014 and 2015, immigration became the single most important issue in Europe in the general public's view. This comes as no surprise after the huge migration wave into Europe in 2015 and people are clearly very concerned about this particular issue. Immigration has many faces, the most salient of which in 2015 was perhaps the question of how to deal with the huge flows of immigrants

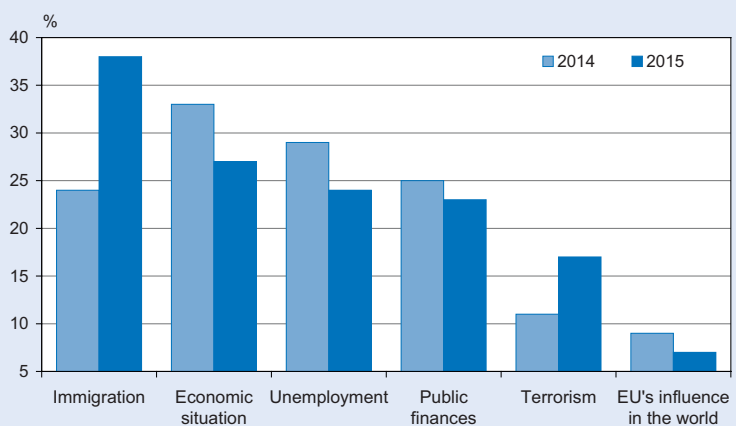
showing up at European borders. As Mr Schaefer mentioned, a large number of immigrants came to Germany. Relative to Germany's population, the inflow of migrants seen in 2015 was larger than the inflow of migrants to the United States in 1917 when immigration to this country reached a historical peak.

For Germany 2015 was an exceptional year; and the fact that Germany opened its borders naturally gave rise to a great deal of debate and discussion. Thinking about migration also means looking at the opportunities that it offers. A large number of young people are coming to Europe and there is hope that many will prosper, attend university, embark upon successful careers and make positive contributions to our lives, research and the economy among other things. Yet another face of migration emerged vividly in the Brexit campaign. Part of the campaign consisted of a very ugly and xenophobic debate over immigrants coming to Britain; in some cases illegally, and migration was clearly one of the key issues in this referendum. Much of the debate centred on the idea that immigrants crowd the National Health Service (NHS), creating problems of access to medical services, mainly for older people. This largely played on xenophobic sentiment, which is certainly an issue that will receive further attention at this Summit.

I would like to look at four economic questions related to migration. Firstly, does migration lead to economic

Figure 1

Survey on two most important issues facing the EU at the moment



Source: Eurobarometer.

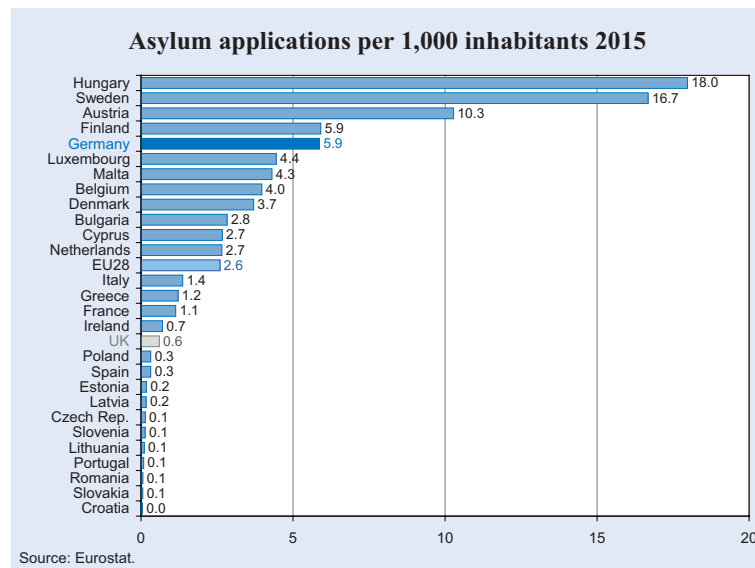
benefits? Secondly, what do we know about the recent wave of immigrants? Thirdly, can immigration provide relief to our ageing societies and will this influx of young people help to sustain our pension systems and support labour markets facing a shortage of skilled workers in the years ahead? The final question, related to the Brexit, is: was immigration to Britain any different?

Let me begin by tackling the first point: does migration lead to economic benefits? From a very narrow economic perspective, the answer, as economists always say, is ‘it depends’, but at a most basic level the answer is ‘yes’, migration does lead to economic benefits. The reason, very simply, is that if people migrate from where they earn low wages to a place where they are more productive and earn higher wages, they can contribute more; meaning that worldwide output rises and economic productivity increases. So if we abstract from complications like crowded infrastructure and the tax and benefits system, migration does lead to an economic benefit.

This, however, is an economic benefit in terms of overall increased output and does not mean that everybody benefits. There can be winners and losers in both origin and destination countries. Everything gets more complicated if we bring taxes and transfers into this equation: if people migrate from a country where they had a job to one where they receive transfers, there is an economic loss. So taxes and the welfare state can distort migration. As the former exist in all European countries, it is not self-evident that migration will lead to improved economic efficiency.

Moving on, what do we know about recent wave that came to Europe? As you are all aware, this recent migration wave was largely driven by refugees coming to Europe not for economic reasons, but simply trying to flee wars and violence. Asylum applications in the European Union surged as of

Figure 2



2014, but mostly in 2015, with this trend continuing into the early months of 2016 before slowing down. The numbers of asylum-seekers during this period were very high compared to previous figures.

Where did immigrants go? Germany proved a very popular destination, but as Figure 2 demonstrates, the highest levels of immigration per inhabitant of the destination country's domestic population were seen in Hungary and Sweden, with Germany only ranking number 5. Of course, Germany has a very large domestic population, and in absolute numbers, had a very high number of asylum applications. The figure reached almost 500,000 in 2015 (which only includes applications that were officially made and registered), before dipping slightly in 2016 (Figure 3). Asylum applications, as I mentioned, do not account for all of the migrants that entered the country. If we look at overall

Figure 3

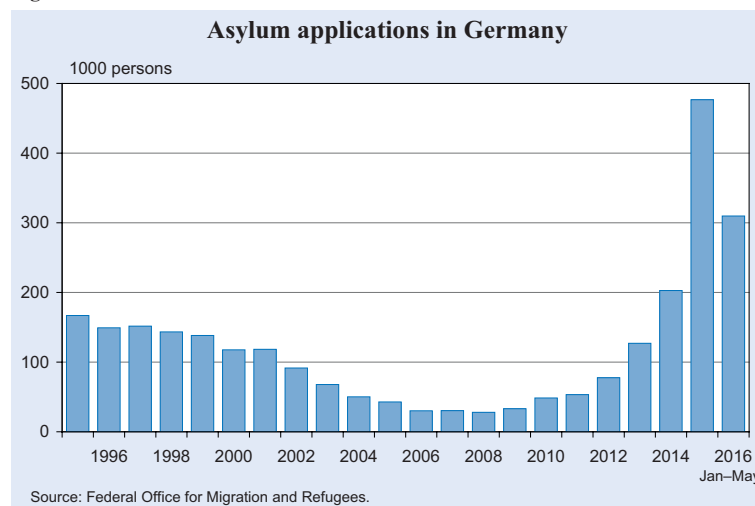
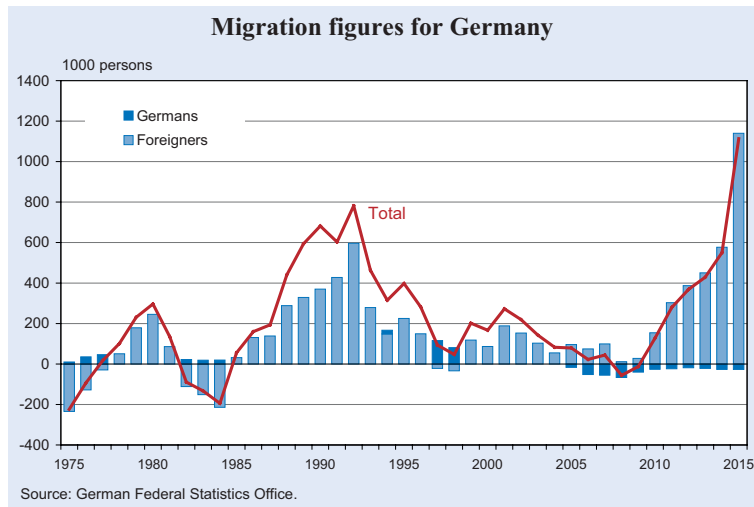


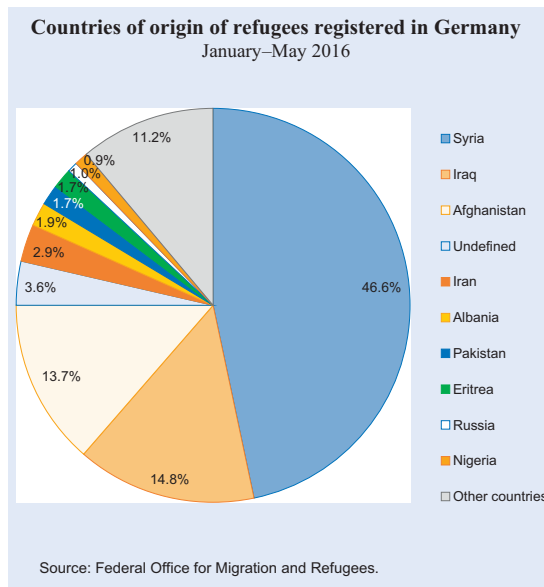
Figure 4



migration figures, over 1 million people came to Germany in 2015, which constituted a massive inflow of immigrants (Figure 4).

Where did these people come from? Unfortunately, information is lacking in this area, but we do know that roughly half of these immigrants came from Syria. As shown by Figure 5, other large groups came from Iraq and a selection of African countries. This wave of refugees remained high in the first few months of 2016, but subsequently slowed down relatively quickly due to border controls

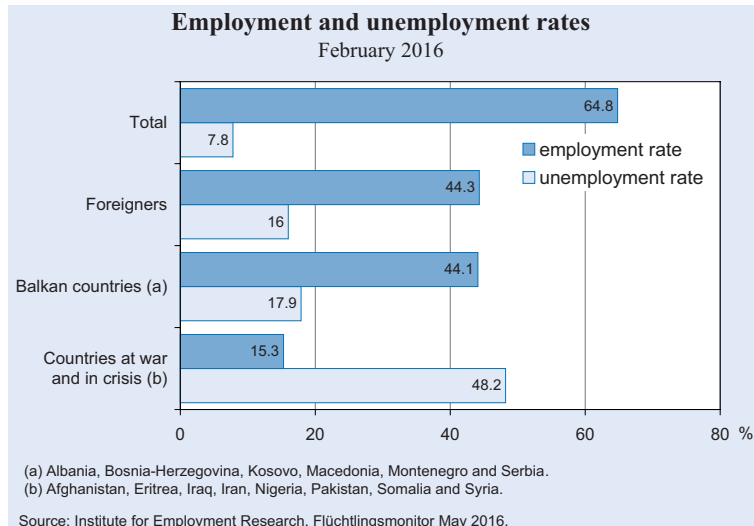
Figure 5



along the Balkan route. Who are these people in terms of their education and training? Information on migrants' professional skills is poor. However, one way of predicting the profile of immigrants is to look at their origin countries and the degree of education to be found there. Unfortunately, illiteracy is very high in many of the migrants' origin countries: it stands at around 60 percent in Afghanistan and at 40 percent in Pakistan and Nigeria.

Of course, the education systems in these countries are suffering from underdevelopment and the civil wars that these migrants are fleeing. The conditions in origin countries are an important factor in understanding who is coming to Europe. Surveys have also been conducted in refugee camps in Turkey and in Europe when people arrive. Overall, they show that the majority of migrants from Syria and Albania have no professional qualifications. Another issue is that, even if migrants have some degree of professional skill, can they use it in the German labour market?

Figure 6



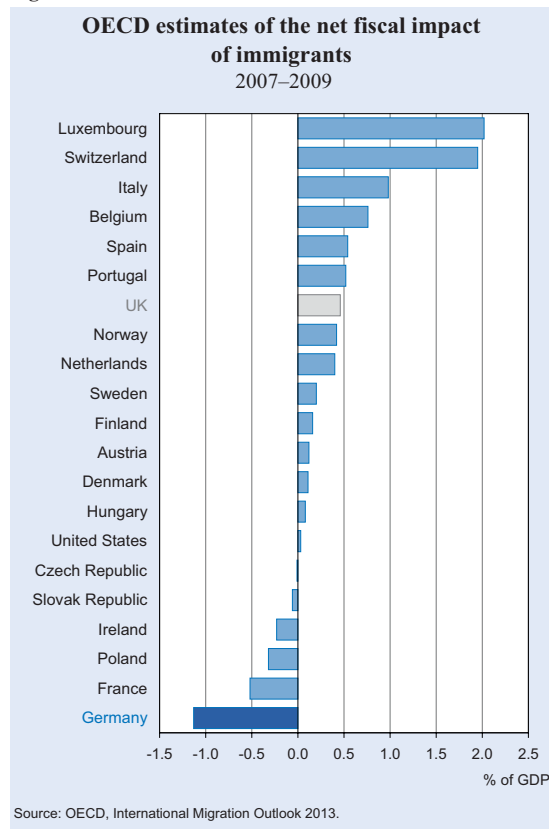
Initial feedback shows that a fairly large number of refugees started training schemes and apprenticeships shortly after their arrival only to drop out at a later stage. Although this feedback may not be representative, the situation does not look very good. It seems that more needs to be done to keep migrants in education. There are, of course, positive stories, but on a larger scale, we must assume that migrants will have a very

tough time integrating into the labour market. This is reflected in unemployment rates for 2016, which only cover people registered with the German social insurance system. Although Figure 6 is not representative, the overall employment rate in the German labour market is relatively high at 65 percent, whereas the unemployment rates for foreigners from the Balkan countries and refugees, do increase. The unemployment rate among refugees is 48.2 percent versus a figure of 7.8 percent for national German unemployment. Previous experience with labour market integration shows that, compared to other migrants who come to Germany to find work, refugees also take a lot longer to integrate into the labour market. In the past this labour market integration discrepancy between refugees and other migrants has taken 15 years to disappear. Perhaps this time we can improve on this figure.

Is immigration a relief for the welfare states of our ageing societies? This was the optimistic argument put forward by many at the start of the immigration wave. The short answer is: no. The longer answer involves looking at the direct fiscal impact of migration on different countries. Germany is a country with a great deal of low-skilled immigration and a very generous welfare state. As a result, as shown by the dark-blue bar in Figure 7, immigration to Germany had the worst net fiscal impact of all OECD countries. Immigration to Britain, by contrast, had a far more positive impact on the country's economy because the UK's welfare state is structured differently to that of Germany and immigration to Britain was also of a very different nature. This chart is a snapshot showing the impact of immigration over a relatively short period of three years. What we would like to know, however, is if migrants come to Germany, what will be their contribution over their entire life cycle? The hope is that many of the young people arriving in Germany may be net recipients of the welfare state at the moment, but will turn into net contributors in the future.

At this point I would like to draw your attention to a simulation study by Holger Bonin, an economist from ZEW Mannheim, which looks at two scenarios: firstly, a 1-million-immigration wave into Germany and, secondly, perma-

Figure 7



nent immigration of 200,000 persons. As Michael Schaefer mentioned, Germany needs permanent immigration. Figure 8 shows the impact of these two forms of migration on the German population. It reveals that the 1-million-immigration scenario makes almost no difference to the ageing of our population. The scenario of permanent immigration of 200,000 persons, by contrast, would make a difference. So relative to Germany's overall population of 80 million, a one-off influx of one million does not really make much of a difference.

Figure 8

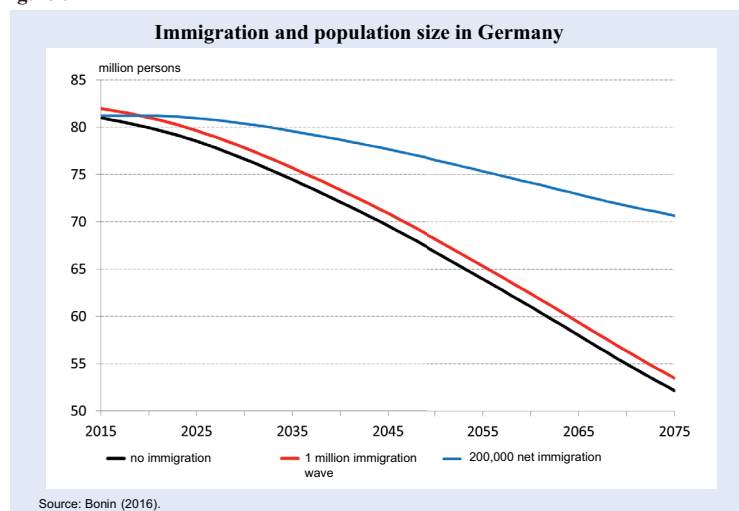
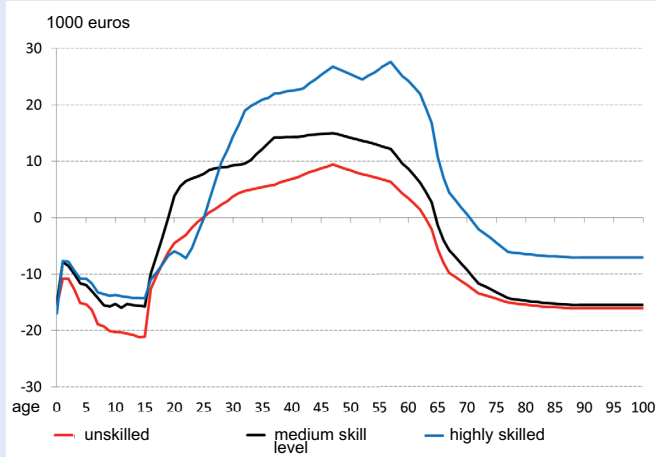


Figure 9

Net contributions and education levels, 2014



Source: Bonin (2016).

What do individuals contribute to the welfare state over their entire life cycle? Net contributions vary according to an individual's skill level (Figure 9). At the beginning of their life cycle people do not make contributions because they go to school and do not pay taxes. Once they begin work, however, they do make a contribution, which turns negative again upon their retirement. Comparing groups of low, medium and highly-skilled people reveals that unskilled people do indeed contribute to the welfare state, but only for a very short period in their lifetime. In other words, if you are only interested in the fiscal surplus that you can get out of migration, the ideal immigrant is highly-skilled and 25 years old. Taking a different approach, you can say that if an immigrant earns the average wage over his/her entire life cycle, his/her net contribution will be zero. Let us suppose that immigrants earn exactly as much as the domestic population's average wage: in this case their net contribution will be zero because the welfare state redistributes from people with above-average incomes to people with below average incomes. So if you want to claim that immigrants make a positive contribution, it is not enough to merely point to the fact that they have a job.

What are the implications for Germany? The recent refugee wave mainly consisted of immigrants with low professional skills who cannot therefore be expected to be net contributors. What is the cost of this immigration wave?

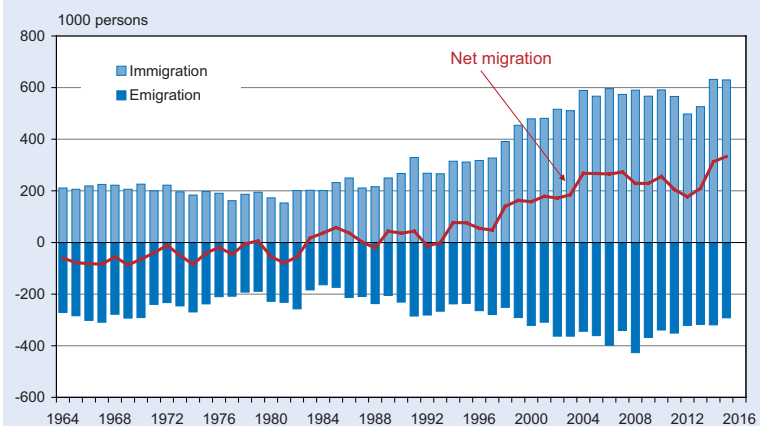
This is very difficult to estimate and there is a great deal of uncertainty surrounding this issue. The simulations over the entire life cycle of refugees, which I find most plausible, indicate that the net costs will be 5–8 percent of GDP, but this is a one-off cost for 1 million immigrants. It is a lot of money and amounts to somewhere between 150 and 240 billion euros, but it is not a sum that will bankrupt the German public sector. Nor is it a very large number if you take into account that this is a one-time cost over the entire life cycle for a wave of 1 mil-

lion refugees. The fact nevertheless remains that the immigration wave is not a net economic benefit, it is a cost, but an affordable cost in my opinion. We should bear in mind that an increase in GDP, which is a point emphasized by the IMF, does not represent an increase in domestic welfare. It merely marks higher debt financed spending, money that will need to be paid back some time in the future. I therefore think that refugees should be welcomed for humanitarian reasons, and not because much of an economic benefit can be expected for the immigration countries.

Now I come to my last point: is immigration into Britain different? Here again the short answer is 'yes': migrants to Britain tend to be more skilled and, unlike in Germany, immigration acts as an important driver of UK employment. Migration figures for Britain show that, since the 1990s, net migration to this country has increased (Figure 10). This has undoubtedly

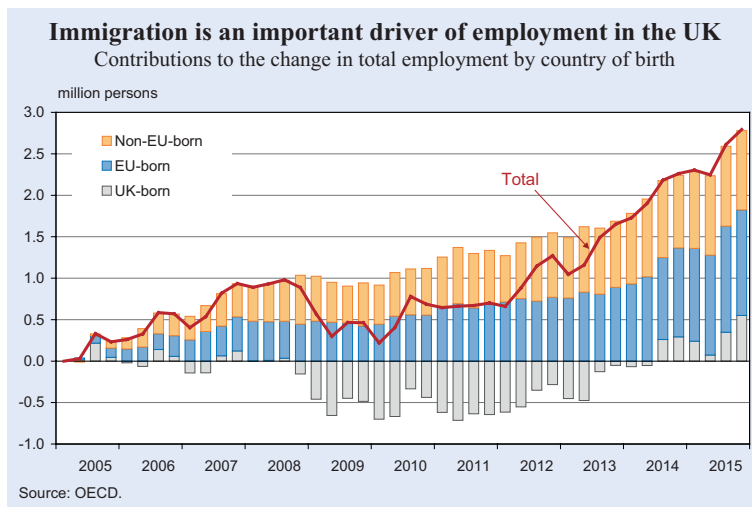
Figure 10

Migration figures for the United Kingdom



Source: ONS, International Migrations Data.

Figure 11



given cause for concern in Britain, which was not the case in 1980s or with previous influxes of migrants. Much of the recent migration to Britain is now from the EU. However, migration to this country is not driven by the asylum applications of refugees and does make a very positive contribution to employment (2 million since the early 2000s), as Figure 11 suggests. In other words, it is really immigration into the labour market, and not into social assistance. This is confirmed employment rates, and particularly the employment rate of EU immigrants to Britain, which is generally higher than that of UK citizens (Figure 12). There are many reasons for this, including the fact that

immigrants tend to be younger than the average population; but as shown by the example of Germany, immigration does not necessarily boost employment.

To conclude, international migration driven by the desire of migrants to find better jobs and economic opportunities has economic benefits, but this is not true of migration motivated by welfare state transfers and access to public services. I do not think that the refugee wave of 2015 into Germany will bring economic advantages,

but admitting those migrants was more a question of offering humanitarian aid. Migrant inflows into Britain, by contrast, were mainly immigration into the labour market, which is a very different form of immigration. The impact of this migration on the UK economy, including its fiscal effects, was mostly positive, but some groups of the UK population were nevertheless negatively affected, especially those that depend heavily on social services or work in the low-skilled sector.

Figure 12

