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Article

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EconPol Forum

Provided in Cooperation with:

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

Suggested Citation: Vella, Eugenia (2025) : Does the EU need a new common migration policy? Evidence-based insights from Germany and Greece, EconPol Forum, ISSN 2752-1184, CESifo GmbH, Munich, Vol. 26, Iss. 1, pp. 18-21

This Version is available at:

<https://hdl.handle.net/10419/310933>

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Does the EU Need a New Common Migration Policy? Evidence-Based Insights from Germany and Greece

KEY MESSAGES

- Migration can stimulate economic growth when managed strategically
- Heterogeneous impacts require targeted and redistributive policies
- Narratives of migration as purely a supply-side issue are overly reductive
- Migration can serve as a deficit-financing alternative to tax hikes or spending cuts
- Achieving a new common migration policy may be more realistic through incremental steps

Migration policy has emerged as a cornerstone of debate within the EU, reflecting the continent's ongoing struggle to address demographic imbalances, labor market demands, and social cohesion. Faced with an aging population and low fertility rates, the EU's workforce is shrinking, leading to critical shortages in sectors such as healthcare, agriculture, and information technology. These challenges are compounded by divergent migration policies among member states.

As the EU seeks to balance its economic needs with political realities, the question of a unified migration framework is becoming increasingly urgent. Effective migration policy can not only alleviate labor shortages but also drive economic growth and innovation while promoting social stability. However, achieving this requires moving beyond fragmented national approaches to a cohesive strategy that harmonizes labor mobility, integration, and solidarity mechanisms across member states.

Public perception often diverges from empirical evidence, with concerns about migration's effects on wages and employment fueling resistance to policy reforms. A better understanding of the migration effects on the labor market and the macroeconomy is crucial for migration policy design (Vella et al. 2020). By examining recent research focused on Ger-

many and Greece, this article offers evidence-based insights for a more sophisticated EU migration approach. The next sections highlight the complex economic dynamics of migration, challenging simplistic narratives of migration as purely a supply-side labor market phenomenon, and propose steps to build a robust and equitable migration framework.

AGGREGATE AND DISTRIBUTIONAL EFFECTS OF MIGRATION

Although extensive research has examined the impact of immigration on employment and wages using disaggregated data, the integration of migration dynamics into macroeconomic models has been constrained by a lack of high-frequency data. Notably, such data is available for Germany, one of the EU's main migrant destinations. Since 2006, the German Federal Statistical Office (Destatis) has collected monthly data on foreign arrivals, categorized by country of origin, based on population registers at the municipal level. Figure 1 illustrates fluctuations in Germany's net migration rate by origin, highlighting spikes during the 2015–2016 refugee crisis and subsequent stabilization.

An analysis of this data provides strong evidence of migration's economic benefits. Empirical research by Maffei-Faccioli and Vella (2021) demonstrates that, between 2006 and 2019, net migration in Germany contributed to job creation, higher wages, and increased industrial production, as well as growth in per capita GDP, investment, consumption, net exports, and tax revenue. These findings challenge the common perception of migration as an economic burden, instead positioning it as a dynamic economic asset. Contrary to prevailing political rhetoric, migration has the potential to significantly expand the economic "pie."

Despite its overall economic benefits, migration's impacts are unevenly distributed. The research on Germany demonstrates that unemployment decreases for native workers, while it increases for earlier immigrant cohorts. When immigrants enter the labor market, they not only seek employment, but also generate demand for goods and services, thereby creating jobs for native-born workers. The critical question has always been which effect prevails. The results of Maffei-Faccioli and Vella (2021) underscore a predom-



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inant job-creation effect for natives and a significant job-competition effect for foreign workers.

An exception to this trend emerges in subsample analysis focusing exclusively on OECD-origin net migration shocks. These shocks increase unemployment rates among high-skilled native workers while decreasing unemployment rates among low-skilled foreign workers. Immigration from developed countries typically includes a higher proportion of high-skilled labor compared to flows from developing countries. These high-skilled immigrants often directly compete with high-skilled natives, particularly in language-intensive occupations. However, high-skilled immigrants also contribute to job creation, benefiting earlier cohorts of low-skilled immigrants. They enhance productivity through technological advancements and knowledge spillovers, stimulate consumer demand, and support company expansion by filling critical roles.

Furthermore, the analysis differentiates the inflationary impact of job-related migration from OECD countries from the deflationary impact of migration, including refugees, from less advanced economies. In the former, demand effects dominate, whereas in the latter, where migration is predominantly low-skilled and often politically driven, supply-side effects prevail.

Overall, the key message from the study of Maffei-Faccioli and Vella (2021) is that migration enlarges the aggregate economic pie, but harnessing its potential requires a nuanced and coordinated approach. For instance, differences in labor market outcomes based on migrants' geographic origin and education level underline the importance of targeted policies that address these disparities. Moreover, implementing redistributive strategies is vital to ensure that the benefits of aggregate gains are widely shared.

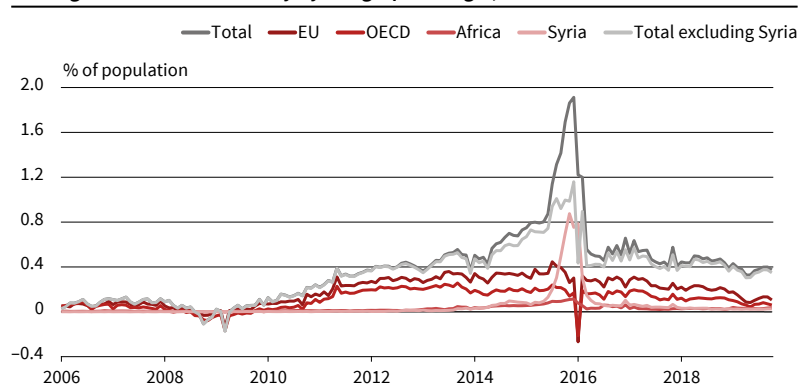
MIGRATION AS A DEFICIT-FINANCING ALTERNATIVE

Greece offers a contrasting case during the economic depression of 2010–2015, marked by a significant “brain drain.” Bandeira et al. (2022) provide critical insights into the fiscal implications of this migration. The study examines the interplay between emigration and fiscal austerity during the Greek Depression, revealing their interconnected effects on the economy. During this period, Greece endured a severe economic downturn, with GDP shrinking by 25 percent and unemployment soaring to over 25 percent. Fiscal austerity measures, implemented as conditions for bailout funds, exacerbated the economic contraction. Simultaneously, around half a million Greek residents – approximately 7 percent of the active population – emigrated in pursuit of better opportunities abroad.

The key finding on emigration's role during the Greek Depression is its bidirectional relationship with fiscal austerity. Austerity policies influenced migration decisions, while emigration, in turn, shaped the

Figure 1

Net Migration Rate in Germany by Geographic Origin, 2006–2019



Source: Maffei-Faccioli and Vella (2021).

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Table 1

Present-Value Cumulative Multipliers for Labor Taxes in a Model with Emigration

Years after the fiscal shock	No emigration	Emigration of unemployed	Emigration of unemployed & employed
0	0.60	0.54	0.52
1	0.69	0.73	0.76
5	0.86	1.27	1.47

Notes: Year 0 refers to the impact multiplier. The labor tax multipliers measure the change in the value of output (in currency units) due to a one currency-unit decrease in labor tax revenues.

Source: Bandeira et al. (2022).

effectiveness of these policies. Notably, nearly half of the emigrants were employed before departing (Labriandis and Pratsinakis 2016), significantly affecting Greece's labor market, tax base, and consumption. Moreover, emigration exacerbated the adverse impacts of fiscal austerity, amplifying declines in consumption, investment, employment, and tax revenues.

When people can “vote with their feet,” fiscal policies encounter a more elastic tax base, which can erode revenue and potentially increase public debt. In Greece, emigration undermined fiscal consolidation efforts by shrinking the tax base, necessitating higher tax hikes and prolonging the timeframe needed to achieve debt reduction goals. This created a feedback loop between emigration and economic decline, perpetuating a deeper and more prolonged recession.

Table 1 demonstrates that the migration channel significantly influences the labor tax multipliers derived from the theoretical model proposed by Bandeira et al. (2022). By amplifying shifts in internal demand, emigration increases the magnitude of these multipliers. The cumulative multiplier after five years rises from 0.86 without migration – indicating that a cumulative one-euro reduction in tax revenues from labor tax cuts results in a 0.86-euro increase in GDP – to 1.27 when the unemployed emigrate, and further to 1.47 when both the unemployed and employed emigrate. In the context of labor tax hikes, these findings suggest that emigration exacerbates GDP losses.

While emigration temporarily acted as a shock absorber for fiscal austerity by reducing the population

and diluting output losses per resident, it simultaneously deepened the recession by diminishing aggregate demand and tax revenue. Although emigration may have initially eased unemployment by lowering labor supply, these gains were eventually reversed as the recession intensified.

The key takeaway regarding the fiscal implications of emigration aligns with the insights from the seminal work by Storesletten (2000). Storesletten's analysis demonstrates that immigration inflows in the United States can enhance tax revenue per capita and reduce government debt, providing a valuable alternative to deficit-financing strategies like tax hikes or spending cuts. This underscores the potential of migration as a fiscal stabilizer, where an influx of immigrants not only expands the labor force, but also bolsters the tax base, alleviating fiscal pressure on governments.

By contrast, emigration potentially has the opposite effect, eroding the tax base and compounding fiscal challenges, as evidenced in the Greek Depression. This comparison highlights the double-edged nature of migration: while immigration can act as an economic boon, emigration – especially of skilled workers – can severely weaken a nation's fiscal resilience. Understanding these dynamics is critical for policymakers seeking sustainable solutions to fiscal imbalances and economic growth.

A NEW COMMON EU MIGRATION POLICY: INSIGHTS AND FEASIBILITY

The EU's New Pact on Migration and Asylum represents an effort to harmonize policies across member states. Key features include talent partnerships to align migrant skills with labor needs, streamlined asylum procedures, and burden-sharing mechanisms. These reforms aim to address the inefficiencies of fragmented national approaches while promoting solidarity. Despite these advancements, significant gaps remain. Critics argue that the pact's reliance on voluntary solidarity measures allows some member states to avoid responsibilities. Moreover, inconsistencies in defining "safe third countries" for asylum seekers risk undermining humanitarian standards.

Fragmented national policies have limited the EU's capacity to manage migration effectively, highlighting the pressing need for a unified EU migration framework. Such a harmonized policy should draw on the experiences of individual member states to develop a framework that maximizes economic benefits while addressing public concerns. Based on the two studies analyzed above, but not limited to them, this section starts with evidence-based insights for a more sophisticated EU migration approach:

- Migration policy should account for skill-level heterogeneity to maximize economic benefits. Targeted migration programs must be developed and

expanded to attract high-skilled workers for critical sectors while maintaining a balance between low- and high-skilled immigration. Policymakers should align migration strategies with automation trends by prioritizing low-skilled labor for non-automatable roles and high-skilled talent to foster innovation and technological advancement. This balanced approach ensures that migration supports both current economic demands and future growth.

- Strategies should focus on ensuring the equitable distribution of migration's economic benefits by supporting both native and immigrant populations. Targeted interventions are essential to address the needs of vulnerable labor market segments, fostering inclusivity and long-term economic stability.
- Fiscal policies should be designed to reduce migration-detering taxation and establish economic incentives that attract skilled migrants. By creating a tax environment conducive to talent mobility, policymakers can enhance a country's competitiveness and address critical labor market needs.
- Policymakers should integrate demographic forecasts into data-driven policy design, using artificial intelligence to predict labor market needs and match migrant skills with economic demands across regions. It is essential to develop robust and granular data collection mechanisms to track migration flows, analyze their economic impacts, and inform evidence-based policymaking. This approach will enable more efficient and responsive migration strategies.

However, a natural question that arises is how feasible it is to achieve a common migration policy. After all, the EU does not have a common fiscal policy. While migration and fiscal policy are distinct issues, they share important parallel challenges that warrant consideration:

- Diverging national interests: Just as with fiscal policy, EU member states have different interests and priorities when it comes to migration. Countries at the EU's external borders (such as Greece, Italy, and Spain) often face higher volumes of migration and may prioritize stronger border controls and burden-sharing arrangements. On the other hand, wealthier countries like Germany and France might focus more on integrating migrants and addressing labor shortages.
- National sovereignty: Migration policy is closely tied to national sovereignty. Countries often see migration as an issue of national interest and are hesitant to cede control over it to Brussels. This is similar to the resistance to common fiscal policy, where countries want to retain control over their own budgets and taxation.

- Economic disparities: Countries with stronger economies may be more willing to accept migrants, while those with weaker economies may fear the impact of migration on their social systems and job markets. Achieving a common migration policy would require addressing these disparities, just as fiscal policy would need to account for differences in national economic conditions.
- Solidarity and burden sharing: The EU has tried to foster solidarity in its approach to migration, with mixed success. While the idea of sharing the responsibility for migrants is central to a common migration policy, member states have often resisted this idea, especially when it involves mandatory quotas or financial contributions. This echoes the challenges in achieving fiscal solidarity, where wealthier states are often reluctant to financially support poorer states, such as through mechanisms like the European Stability Mechanism (ESM).
- Political will and reform: A common fiscal policy remains elusive, partly due to political disagreements over the balance of power between the EU and national governments. Similarly, achieving a common migration policy would require overcoming deep divisions among member states and negotiating compromises on highly sensitive issues like border control, asylum seekers, and labor mobility.

POLICY CONCLUSION

Migration is not only a challenge for the EU, but also a unique opportunity to address its demographic and economic crises. A harmonized and forward-looking migration framework can transform migration into a driver of growth and innovation. To make a common migration policy viable, the EU must tackle the economic and social disparities dividing its member states. Success hinges on balancing national sovereignty, economic inequalities, and solidarity while ensuring equitable responsibility-sharing across the bloc.

As with fiscal integration, achieving a common migration policy may be more realistic through incremental steps. Failure to act risks deepening labor shortages, economic stagnation, and social fragmentation. On the other hand, adopting a bold and unified migration strategy would enable the EU to fully leverage migration's potential to drive prosperity and cohesion.

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