

Introduction

Christian Vorländer
Michael Schaefer
Clemens Fuest

MIGRATION: CHALLENGE OR OPPORTUNITY?

Panel 1

INTRODUCTORY DIALOGUE – THE NEW MIGRATION WAVE

Panel 2

SEIZING THE OPPORTUNITY

Gabriel Felbermayr

Panel 3

MELTING THE POT?

Armin Nassehi

Trends

STATISTICS UPDATE

Documentation of the

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Migration: Challenge or Opportunity?

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MIGRATION: CHALLENGE OR OPPORTUNITY?**Introduction**

Welcome Address <i>Christian Vorländer</i>	3
<i>Michael Schaefer</i>	5
<i>Clemens Fuest</i>	8

Panel 1

Introductory Dialogue – The New Migration Wave	14
---	----

Panel 2

Seizing the Opportunity <i>Gabriel Felbermayr</i>	16
---	----

Panel 3

Melting the Pot? <i>Armin Nassehi</i>	27
---	----

Trends

Statistics Update	33
-------------------	----

MIGRATION: CHALLENGE OR OPPORTUNITY?

Welcome Address by

CHRISTIAN VORLÄNDER
Councillor, City of Munich

Ladies and Gentlemen,

I am pleased to welcome you to the 15th Munich Economic Summit on behalf of the City of Munich. We are proud that Munich regularly serves as the venue for this conference that has become an important forum for exchange between science, the industry and politics regarding key issues of economic development in Europe and the world. I would like to use this opportunity to thank the organizers of the Munich Economic Summit – the BMW Foundation Herbert Quandt and CESifo.

‘Migration: Challenge or Opportunity?’ is the title of the 15th Munich Economic Summit. Hearing this, I still have the images of Munich Main Station in mind, the refugees arriving and the volunteers welcoming them. The solidarity and helpfulness of Munich residents, showed on this occasion, attracted worldwide attention. Since then, many things have changed in the assessment and in the social perception. In the fall of 2015, the protection of refugees was still the most important task taking centre stage, but the public and political discussion of recent months has slightly changed.

Different levels get time and again mixed up in the political and social debate – whether voluntarily or involuntarily – and blend, even though a clear distinction would be necessary here: I mean the blending of humanitarian asylum policy and qualified immigration policy. Regarding the first point, Germany committed itself within the framework of its Basic Law and by having acceded to the Geneva Convention relating to the Status of Refugees. The second point, a qualified immigration policy, is demographically necessary in Germany, economically advisable and is already – to a lesser or greater degree of success – practiced. Particularly economically successful locations such as

Munich need immigration. I would like to prove this based on several developments in Munich.

Munich is an international city.

The Bavarian state capital is one of the large German cities with the highest proportion of foreign nationals. Last year alone, the number of foreign Munich-residents rose by around 26,000 – rising to 27.6 percent of the population. The proportion of people with a migration background is now 41 percent. In total, people from 180 countries live here. They make Munich a city characterized by diversity and tolerance. The well-known saying ‘Weltstadt mit Herz’ (Global City with Heart) becomes increasingly true also in terms of ‘global’ city.

Munich is a growing city.

Munich’s population is growing significantly. On the one hand, this is due to migration from within Germany and from abroad, and on the other hand, due to a birth surplus. The birth surplus is directly linked to migration, because particularly young people come to Munich and start a family here. In May 2015 Munich’s population exceeded the 1.5 million mark. In 2018 already 1.6 million people will live in Munich and the population will likely rise to 1.7 million by 2028. Newly added last year, was the large number of migrants due to humanitarian reasons. In Munich, at the beginning of 2016, more than 9,000 asylum-seekers were housed in accommodation. In addition, there are unaccompanied minor refugees as well as more than 10,000 recognized refugees and tolerated persons. In total, currently around 25,000 refugees live in the city. Presently, the Munich-based refugees come predominantly from Syria, Eritrea, Nigeria and Afghanistan.

Munich provides jobs.

But for this growing population there is also an increasing number of jobs available. This is the result of the current gainful employment forecast for Munich and the region. For the City of Munich, an increase of the number of employed people of 17.5 percent is expected by the end of the forecast horizon in 2030. This corresponds to 180,000 additional people in gainful employment. In this regard, particularly well-educat-



ed workers are in demand on the labour market. On the one hand, these are of course university graduates. But additionally, especially skilled workers with a completed apprenticeship are needed. Especially for this group of skilled workers a high demand is expected on the labour market. Should it not be possible to meet this demand, then this can become a decelerating bottleneck factor for companies.

Munich is an attractive location for companies and therefore also for workers. Compared to today, in the future, the Munich economy will be even more dependent on migration of skilled workers from within Germany and from abroad. In order to activate the potential associated with migration, the City of Munich has started diverse initiatives, measures and projects. Already many years ago, Munich has created a Foreign Qualifications Advisory and Support Service and established a Service Center for International Professionals in the Foreigners Office. Additionally, there are numerous other initiatives and advisory and support services by the Free State of Bavaria, the universities and the chambers.

These are predominantly initiatives that are based on the qualifications the migrants already possess from their countries of origin. However, especially regarding the currently increasing number of migrants due to humanitarian reasons – refugees – the qualifications they already possess differ greatly. Therefore, I am of course not that naive to believe that we can solve our need for skilled workers ‘just like that’ by receiving refugees. On the contrary, the project ‘integration of refugees into the labour market’ is a Herculean task which is, on the one hand, a worthwhile task and, on the other hand, there is no alternative either. We must not be discouraged by it and sit back and take things easy. This would be the worst of all solutions.

Whether political asylum or targeted migration, the integration into the labour market is the most important component of integration into society. Work is the key to participation. Work makes it possible to use existing knowledge and to acquire new skills and qualifications. Work creates contacts with colleagues and lets social networks emerge – here in the concrete and not in the virtual sense of the term. Furthermore, work facilitates learning German, provides the opportunity to have one’s own income and to shape one’s life independently, and work provides self-esteem and recognition.

Of course, the integration of refugees into the labour market is much easier in economically successful locations such as Munich than in regions and cities with less economic development potential. On the other hand, the shortage on the housing market, characteristic for booming business locations, will in turn present the cities with significantly greater challenges regarding housing for refugees. For this reason, we in Munich set up the housing program ‘Housing for Everyone’ (*Wohnen für alle*) in addition to the most comprehensive municipal housing program in Germany. With that, in a record time, the provision of housing for low-income groups will be promoted, also paying special attention to recognized refugees.

Against this backdrop the following is valid: this integration is not for free, it will cost money. It is not only the accommodation of refugees during their asylum procedures that entails costs. Another challenge begins, when refugees will become permanent city residents after the positive decision regarding their application for asylum – and therefore the real, the lived integration needs to follow. Here, the municipalities require even more financial support by the state and the federal government than before.

The title of this event ‘Migration: Challenge or Opportunity’ already includes the answer. Migration is both – a great political and social challenge and, if successful, a great opportunity for our society. The key to success is for sure the successful integration of people into work and society. Especially from this point of view, I wish you a successful and exciting conference, interesting conversations and discussions.

Thank you for your attention.

Welcome Address by

MICHAEL SCHAEFER

Ambassador (ret.); Chairman, BMW Foundation
Herbert Quandt

Ladies and Gentlemen,

On behalf of the BMW Foundation, I welcome you warmly to the 15th Munich Economic Summit on ‘Migration – Challenge or Opportunity?’ Together with our partner, the CESifo Group, we are delighted that some 150 participants from some 15 European and non-European countries representing all sectors of society have accepted our invitation. This reflects our intention to transform the Munich Economic Summit from a *European* forum of exchange into a *global* platform for dialogue between business, politics and civil society.

It would not have needed Brexit to confirm what we all feel: Europe is in a deep crisis of confidence. Twenty-five years after the end of the cold war and the fall of the Berlin Wall, we are in danger of destroying what two generations have built since World War II. Like no other region, we have put conflict and war behind us by building a European Union on the basis of common values and common interest. Despite all shortcomings, the EU has become a trademark for peace and prosperity. The permanent influx of people from our neighbouring regions is ample proof of that. The EU has furthermore shouldered an enormous burden by integrating new member states – nations with different histories and different expectations, but nations that wanted to be part of an unprecedented regional process.

The last EU enlargement process has been quick, maybe too quick. After the initial decade of rebuilding, many people in its new member states have started to realize that integration is not a one-way street. That they have acceded to a union which is more than an institution helping to reconstruct their economies. That it is a union of solidarity. They began to realize

this during a period when Europe started to be confronted with major internal and external challenges: the global financial crisis, Greece, the conflict over Ukraine, the refugee crisis.

This complex mix of serious challenges, together with the gradual realization that globalization is changing our seemingly orderly world of the 20th century, is the reason why many EU citizens feel increasingly insecure and worried about the future. Political parties have not taken these concerns seriously, their inability to answer to them have driven people into the arms of populists. The resulting frustration is one reason for the rise of authoritarian and nationalist trends, which we observe in ever more European societies, but which also explains the ‘Trump phenomenon’ in the United States. Crude populism calls for simple answers to complex problems, it blames the European Union where national governments have failed. In their anxiety and frustration, people are starting to build new walls, walls against the influx of everything foreign – against people with different religion, different ideas, different culture, people in need, even against people who are being persecuted.

We are observing a steady move away from the very foundation of the European Union, our common value system, based on human dignity, respect and solidarity. Developments in Hungary or Poland or the shocking Brexit are only symptoms of this trend. This trend must be reversed. Politics, but also business and civil society must stop being bystanders. We all must be vocal in our defence of what I would regard as the greatest treasure of our generation – peace and the prosperity of our continent. It is high time to explain that we live in a time of deep transformation and that what we need is more Europe rather than more nation state. That the challenges of globalization can be turned into hope for a better society through more solidarity and joint solutions, not through a return to 19th century concepts. President Gauck put this into wonderful words last week during his visit to Romania.

Especially during these times of insecurity and instability, Europe must begin to assume an active role by building bridges and by contributing to solutions re-



gionally and globally, challenges which no nation state alone is able to solve. Challenges like the conflicts in Ukraine, Libya or Syria, challenges like energy security or climate change. Now, in this turbulent time of transition, we need resolute joint action by the EU27, not passive by-standing and self-pity. That is anything but easy, but it is essential if we do not want to risk all we have achieved in the past two generations. And this is particularly true when it comes to the arguably single greatest challenge of the next generation: migration.

Last week, the UN High Commissioner for Refugees triggered the red alert: 65 million people are fleeing on a worldwide scale. Poverty, civil war, and climate change are among the root causes of this migration wave. And there is no end in sight. We need to face the fact that this challenge may confront us for another generation or more. If that is true, and I personally have no doubt at all, we need to stop reacting with panic and short breath, and rather start to develop a long-term strategy confronting the root-causes of migration in countries of origin, the challenges to regions of transfer, and the problems of countries of final destination. And we need to do this in unison with our European partners. This is what we would like to discuss with you during the next couple of days here in Munich.

What are the facts? Out of a world population of 7.4 billion, one in every 113 people globally is now either internally displaced, a refugee or an asylum seeker. In numbers: there are 40.8 million IDPs, 21.3 million refugees and – may I say – only 3.2 million asylum seekers in industrialized nations. Given the relative prosperity of our continent, it is no surprise that Europe has been the preferred destination of refugees and migrants from North Africa and the Middle East (MENA).

Germany alone was the destination of choice for 1.1 million asylum-seekers in 2015. For a single country, this is an enormous burden, indeed, but for a continent of 500 million people, it is a manageable challenge. The German population has responded remarkably to the influx of refugees last fall, with respect, civic engagement, and humanity. The German Chancellor did the right thing to extend her hand to people in dire need of protection when 100,000 of them were barred from it with a cynical fence built by Hungarians. Her judgment that we can make it was the right one at the time.

Mistakes were made, however, in the next phase, in view of ever more refugees pouring into the EU. As a result of poor government communication, the typical political infighting of parties failing their responsibility to seek common, sustainable solutions, and an inexcusable failure of the EU to achieve concerted action of its member states, the situation got out of control. The Chancellor's decision to go it alone, to continue the 'German way', created heavy resentment within our society and within the EU. The media need to accept their share of responsibility: for reasons of political opportunism, they neglected their role as an objective, critical voice for way too long.

The failure (maybe also inability) to distribute a mere 140,000 asylum-seekers to the EU members was – more than anything else – a symbolic reflex of a deep crisis of mutual confidence among the 28 member states, the reasons for which lie well outside the actual refugee crisis. This crisis of trust needs urgent attention, it needs to be solved not through but despite the refugee challenge.

I do not want to comment on short-term, not to say: short-sighted, policy decisions like the closure of the Balkan route or the questionable agreement with Turkish President Erdogan. I would rather suggest a few parameters which could define a long-term, forward-looking European refugee policy. A policy which must be based on solidarity and the will to fight the root causes of the problem.

First of all, we need to understand and accept the legal difference between *refugees* and *other migrants*. Refugees who are victims of war and conflict are protected by international law, in particular by the Geneva Refugee Convention. They have the right to be granted asylum according to national asylum laws in the country of destination. In Europe, Greece and Italy or other Mediterranean countries would be the countries of first destination, but as they are unable to grant asylum to all arriving refugees, a European solution based on the principle of solidarity is necessary.

Refugees need to be granted asylum as long as the cause for their flight is valid. That can take years, if not decades. During that time, public and civil institutions are challenged to integrate them in our society and economy. As asylum seekers often lack the kind of education, social and language skills needed in our high-tech economies, their integration causes considerable costs for our social system. It is in our own in-

terest and in the interest of the people in question to increase our efforts for their speedy integration. Only by doing so will we avoid the creation of ghettos, which could be a new source of frustration and resulting insecurity.

The other group of newcomers consists of migrants leaving their countries for reasons of poverty, unemployment, and environmental pressure. In their case, it is up to the respective state to decide whether they are welcome and needed, or if they should be returned to their home country. This is where we need to develop a clear policy of intended immigration. In a recent survey, the Bertelsmann Foundation concluded that Germany alone will need between 300,000 and 500,000 migrants annually to cope with the consequences of demographic change and the expected shortage of skilled labour. If this trend is true, we should develop an active strategy with clear principles and criteria determining what kind of migrants should be integrated into our labour market and what procedures should be applied to do so. In short, we need an *immigration law*.

There are a number of existing models we can draw on. All of them, whether the Australian scoring system or the Canadian pool system, contain certain components that are key to a successful application such as qualification, age, language skills, and work experience. The political discussion in Germany on the need for an immigration law has been going on for more than twenty years across party lines. I am convinced that now is the right time to take a decisive step in this direction. However, policies for the integration of refugees or the immigration of migrants, important as they are, will not solve the problem. What is more important than anything else is a new, European strategy on how to *fight the root causes of the refugee crisis*.

Strategic alliances must be forged between societies of origin, countries of transit, and those of final destination to tackle the challenges in an integrated manner. Regional and global powers, complemented by business and civil society, must start establishing long-term engagements with local stakeholders in the affected regions. They must shoulder responsibility – the responsibility to prevent societies from failing, the responsibility to protect populations whose governments are either unable or unwilling to protect them, the responsibility to contribute to a sustainable stabilization of such societies.

This requires a totally new form of economic and social cooperation, leaving behind the old, paternalistic avenue of development aid and instead trying to contribute to building just and inclusive societies and ensuring accountability and efficient structures of governance, based on a fair social contract and the participation of local stakeholders. This is no recipe for solving the refugee crisis overnight. There is no such recipe. But it is the only recipe to contain or eliminate the challenge on a medium or long-term basis.

The essential question now is whether the EU, which is split on the issue of refugees and at the same time faced with the wider consequences of Brexit for the entire project of European integration, will find the resolve to jumpstart a new phase of necessary strategic deepening. Courage, not giving in to populist pressure, is the currency that is needed at this point in time.

I hope that this year's summit will come up with a few concrete ideas to tackle these very complex issues. In order to facilitate this, we have decided to introduce another innovation into our proceedings. To allow a more active and interactive engagement of participants, we will organize four so-called break-out sessions this afternoon – four moderated working groups, in which you will be able to have small-group discussions on practical concepts, ideas, and possible solutions to Europe's great challenge, immigration and integration.

I look forward to exciting, open and, if necessary, controversial discussions, not only between our expert panelists, but also with the active participation of many of you. I wish you all two enriching days at the Munich Economic Summit and would now like to ask our partner, Professor Clemens Fuest, to take the floor.



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.

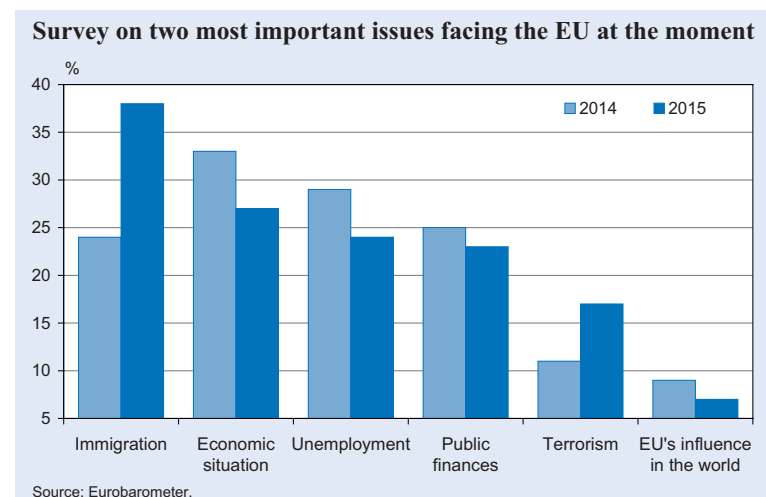
Figure 1 shows opinion polls in Europe. These polls reveal that, between 2014 and 2015, immigration became the single most important issue in Europe in the general public's view. This comes as no surprise after the huge migration wave into Europe in 2015 and people are clearly very concerned about this 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



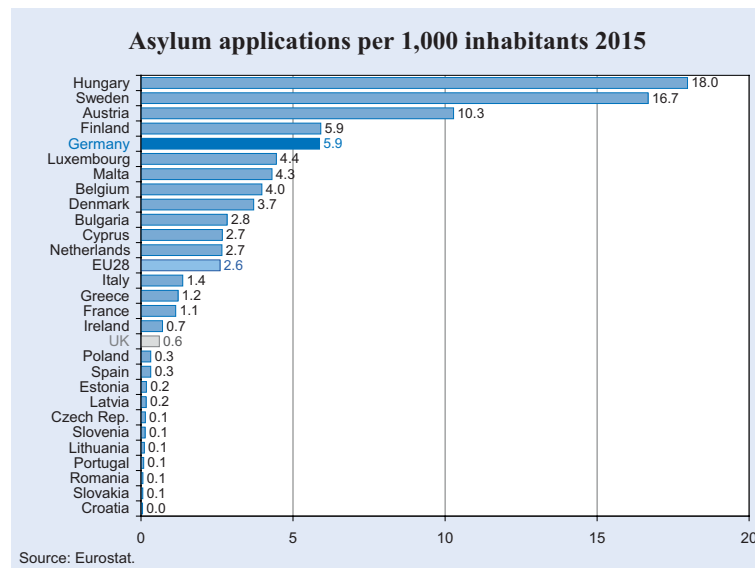
benefits? Secondly, what do we know about the recent wave of immigrants? Thirdly, can immigration provide relief to our ageing societies and will this influx of young people help to sustain our pension systems and support labour markets facing a shortage of skilled workers in the years ahead? The final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

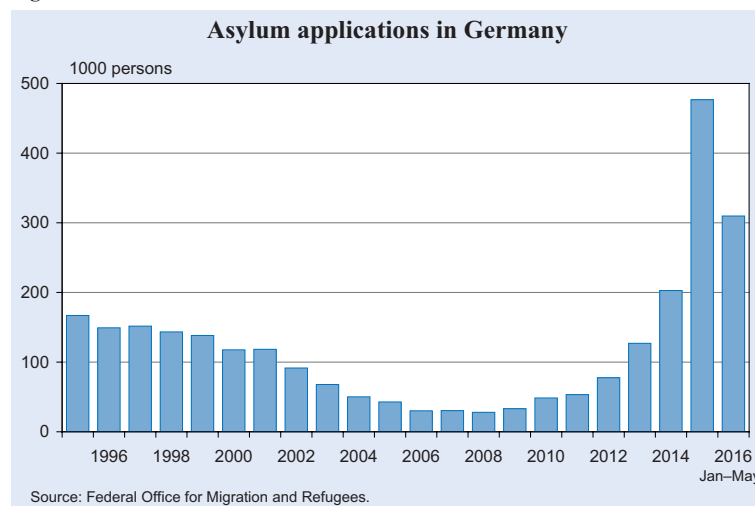
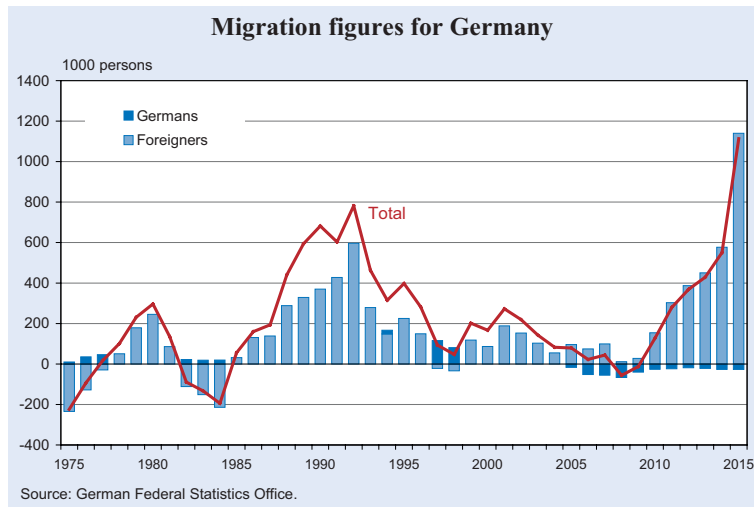


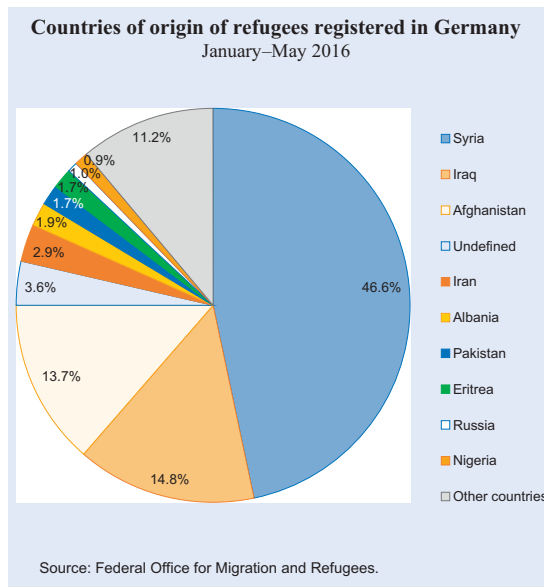
Figure 4



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

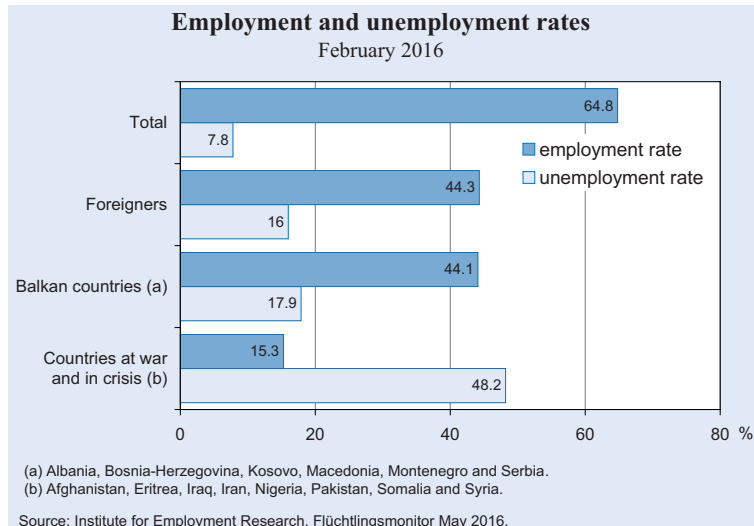
Figure 5



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



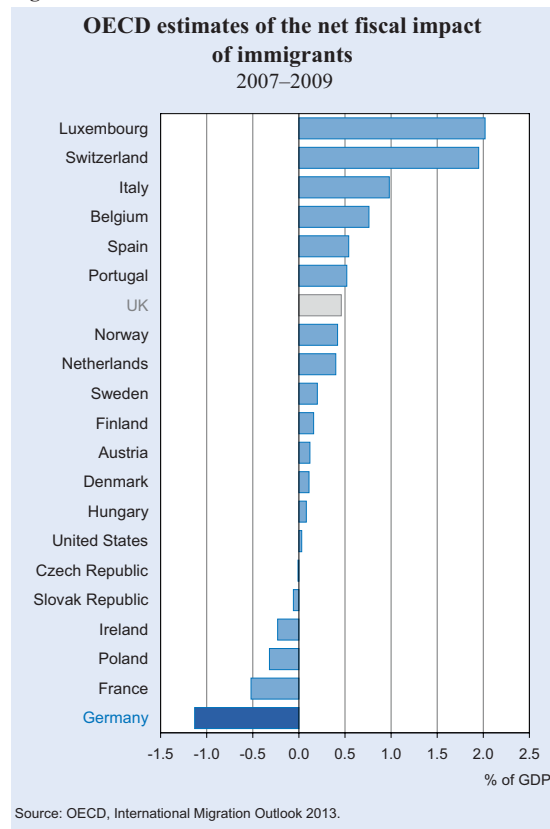
Initial feedback shows that a fairly large number of refugees started training schemes and apprenticeships shortly after their arrival only to drop out at a later stage. Although this feedback may not be representative, the situation does not look very good. It seems that more needs to be done to keep 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

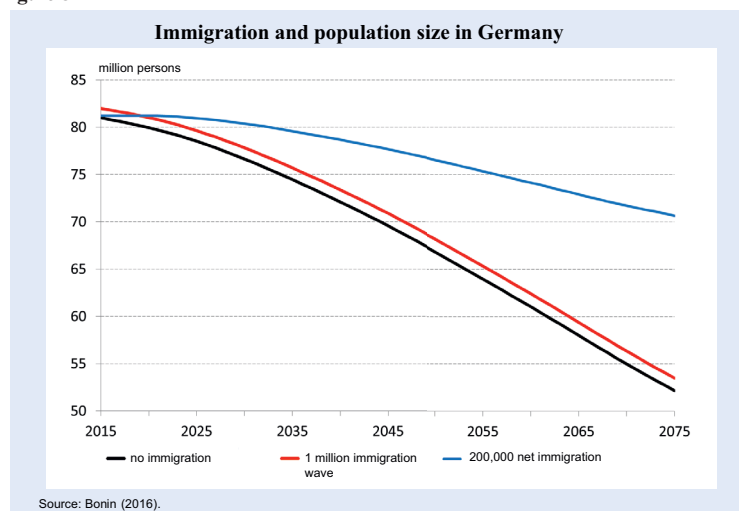
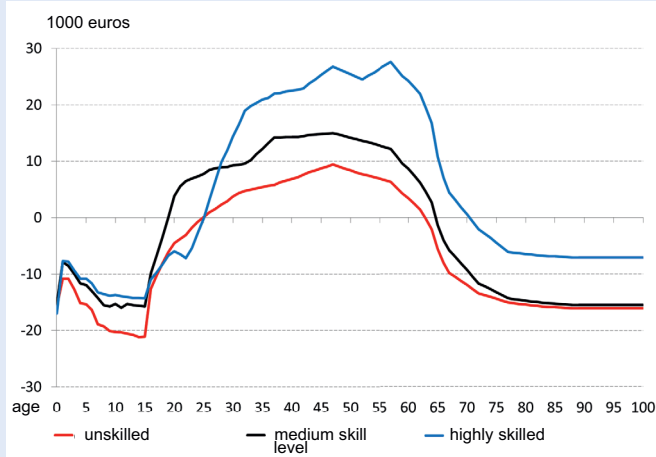


Figure 9

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?

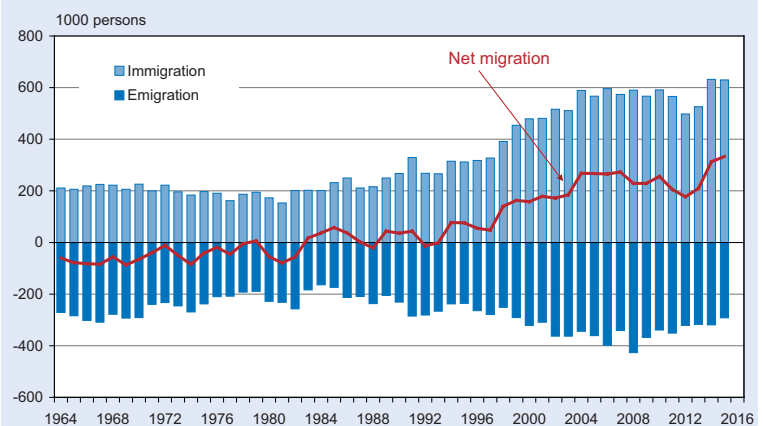
This is very difficult to estimate and there is a great deal of uncertainty surrounding this issue. The simulations over the entire life cycle of refugees, which I find most plausible, indicate that the net costs will be 5–8 percent of GDP, but this is a one-off cost for 1 million immigrants. It is a 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 million

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

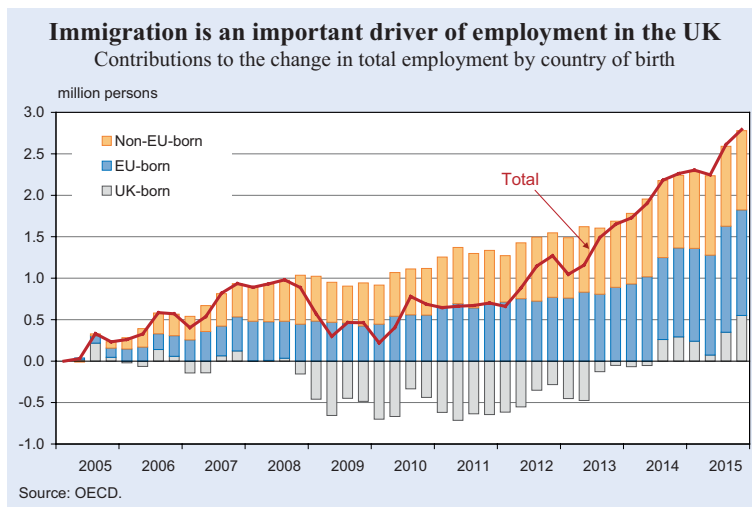
Figure 10

Migration figures for the United Kingdom



Source: ONS, International Migrations Data.

Figure 11



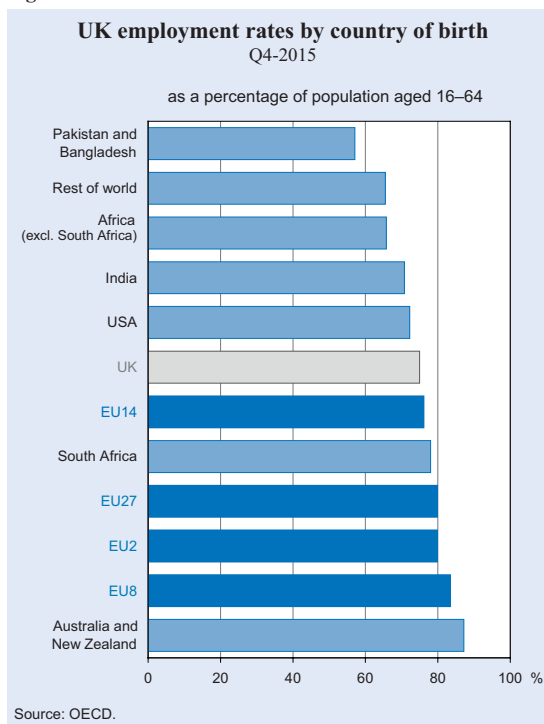
given cause for concern in Britain, which was not the case in 1980s or with previous influxes of migrants. Much of the recent migration to Britain is now from the EU. However, migration to this country is not driven by the asylum applications of refugees and does make a very positive contribution to 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



Panel 1

INTRODUCTORY DIALOGUE – THE NEW MIGRATION WAVE

PANEL

What can we learn from past immigration flows? What were the shortfalls in Europe's bid to tackle the latest immigration wave? How can we improve and forge a coherent policy for the future? Panel chairman and political editor of *The Economist* **John Peet** opened the session by inviting **Demetrios Papademetriou**, President of the Migration Policy Institute (MPI) and based in Brussels, to give his views on these key issues.

Citing figures presented by Mr Fuest, Mr Papademetriou reiterated that Germany took in the highest number of registrants for asylum in absolute terms during the recent refugee crisis. Despite discussion of immigration being a pan-European problem, Mr Papademetriou reminded conference guests that 90–95 percent of immigrants in the recent wave were effectively resettled in a handful of EU member states.

According to Mr Papademetriou, Europe tried very hard to ensure that 2016 was not a repetition of 2015 by striking a deal with Turkey. The number of immigrants coming through the Aegean fell to 2,000 per month as of March 2016. However, the major reason for this downturn, he argued, was not the deal with Turkey, but the closure of the Western Balkan route. Mr Papademetriou added that Chancellor Merkel and Italy's Prime Minister Renzi are also trying to ensure the closure of the Mediterranean route by brokering a deal with the Libyan government and by seeking alternatives to settling refugees in Europe.

Mr Papademetriou referred to the 15-year period from 2015 to 2030 as, “a time of integration in which we must find ways to turn immigrants into net-contributors to the economy”. Casting doubt on the figures frequently cited by central bankers that measure the immigration success in terms of percentage in-

creases in GDP, Papademetriou cited per capita GDP as a more realistic yardstick, alongside the more subjective measure of how host country populations experience immigration. “There is clearly a shift: 2015 and the first half of 2016 was all about crisis management; the next six months and the 15 years ahead are essentially going to be about managing the aftermath of that crisis”, explained Mr Papademetriou. “The first stage of the crisis required the engagement of government and the second stage will require the engagement of society as a whole working together with government”, he predicted.

Adopting an economics-based approach to analysing immigration, **Jörg Decressin**, Deputy Director of European Department, International Monetary Fund, Washington DC, identified three of its key drivers: business cycle fluctuations, long-term growth differentials, and crises and wars.

The scale of migration from eastern to western Europe since 1990 has been staggering, with some 20 million leaving eastern European economies. A look at the geography of migration flows reveals that some 40 percent of migrants have gone to Germany. What kind of people are these migrants, asked Mr Decressin? “Those who tended to leave eastern Europe were of working age and with a fairly good education”, he noted. This points to a brain drain and has slowed growth and income convergence within Europe over the long term.

How will this impact GDP over the next 15 years? Some EU countries like the Czech Republic are attracting migrants and will continue to see positive growth. In general, however, the impact is negative on sender countries, but positive for the EU as a whole. The labour market integration of refugees is slow and difficult, with employment rates among refugees tending to be lower than their host country's average for 11–20 years after their arrival. They also tend to earn 30–40 percent less than natives for equivalent jobs.

How will the influx of migrants affect growth in the EU? For the first five years Mr Decressin forecast a 0.5 percent increase in GDP, creating a small, but not-

able net benefit. The economic impact of the refugee surge on public finances, however, is ambiguous. On a brighter note, Mr Decressin expects the long-term growth effect of migration in general to be positive, albeit uneven.

Moving away from metrics, **Christiane Kuptsch**, Senior Specialist in Migration Policies, International Labour Organisation, looked at the challenges and opportunities of immigration. Summing up the situation, she said: “on the one hand, we want qualified workers and on the other hand we are now faced with a wave of people who have not been selected [...] and do not have the skill profiles that Europe’s economies may need at this time”. She described this as a major challenge for the European Union and for Germany in particular. Turning to legal questions, Ms Kuptsch highlighted the fact that the same labour market concepts are often used for refugees and non-refugee immigrants and that greater differentiation is needed for migrant workers. “We do not want labour mobility or migration to bring down general labour standards for everyone”, said Ms Kuptsch.

We are moving towards a mindset of labour market integration that is totally new. There used to be a short-term borrowing and lending mentality towards certain skills. This tended to result in labour market segmentation, with certain jobs becoming migrant jobs that natives no longer want. “I’m rather optimistic that this whole crisis could lead to a longer-term perspective on immigration policy that could be rather healthy for Europe”. Ending on an upbeat note, Ms Kuptsch reported that peer learning related to the early assessment of migrant skills is taking place in Brussels, where people are exchanging ideas on how to get immigrants trained quickly.

Drawing on his experiences in Britain and Brexit, John Peet subsequently opened questions up to the floor by asking Mr Papademetriou why economics makes no difference to attitudes towards immigration, even if it can be shown to have economic benefits. According to Mr Papademetriou, this is largely due to a failure on the part of policymakers to listen to the concerns of migration’s losers. He also noted that places with few immigrants tend to lack the social infrastructure and government services to cope with them, so their natives often react negatively to large influxes of migrants. In places where immigrants have always been present, by contrast, people tend to accept them far more readily. So the idea that dispersing

immigrants is good is contradicted by evidence showing that it can backfire if the requisite infrastructure is not in place.

On the subject of economic benefits, Mr Decressin highlighted the difficulty of measuring the economic contribution made by migrants, and especially by low-skilled workers. Citing the example of a low-skilled Filipino woman taking a job as a nanny and enabling a highly-educated mother to join the labour force, Mr Decressin emphasized that such workers can have hidden dynamic effects on the labour market. Ms Kuptsch also pointed out that individuals with few qualifications represent an opportunity, since they can be channeled into areas where skills shortages exist.

Kai Chan, Distinguished Fellow at INSEAD, stated that GDP is an improper measure of welfare and asked whether we should be looking for alternative ways to assess the success of migrant inflows? Mr Papademetriou responded that the only way to obtain a more accurate measure is to marry economic measures like GDP with sociological methods.

Heribert Dieter, German Institute for International Security Affairs, noted that Germany’s per capita growth is set to drop dramatically due to the 1.1 million net inflow of migrants in 2015. He asked whether this may endanger political support for migration if these figures filter through into the public debate?

According to Ms Kuptsch, support for further immigration often linked to the issue of winners and losers. Some of measures favouring refugees should also be designed to benefit the local population. In other words, these measures should be made accessible to vulnerable groups in host populations. An ‘open-to-everybody’ attitude is really important to the broader acceptance of immigration policies, insisted Ms Kuptsch.

Another opportunity, according to **Ute Branhof**, United Nations, is the education of immigrant children who constitute over 50 percent of the recent immigrant wave. In countries like Greece, however, too little is being done to seize this opportunity, she added. While agreeing with this point, Mr Papademetriou largely blamed the lack of EU funding for this state of affairs and called upon the European Union to ‘say less and do more’ to help immigrants.



Panel 2

Introduction

SEIZING THE OPPORTUNITY

GABRIEL FELBERMAYR*

The current status

In 2015 Germany experienced an unprecedented wave of immigration. According to the most recent data, 2.1 million persons immigrated into Germany. Moreover, as shown in Figure 1, the number of persons leaving Germany was at an all-time high of about 1.0 million. Accordingly, the country registered a net inflow of 1.1 million persons. This amounts to a net migration rate of 1.4 percent of the German population. Rarely in history has a single country experienced a larger yearly influx relative to its initial size. Germany has tended to receive net inflows of people since the early 1950s. These flows fluctuate with the domestic and the global business cycle, but they also reflect geopolitical events such as the end of communism around 1990, the civil war in former Yugoslavia and the recent refugee crisis.

The fact that net immigration is substantially smaller than gross immigration is typical for a rich, modern country that is relatively well integrated into the European labour market. Since the guest-worker period from 1960 to 1972, a high rate of return migration was actually intended by law makers. Workers' freedom of mobility within the European Union also encourages such behaviour. Nonetheless, even if immigration and emigration flows may cancel

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out in some years (as was the case in the period 2004–2009), gross migration still matters, as it indicates the extent to which the labour market and society at large are confronted with mobility. Figure 2 shows an index of population churning. It is based on the absolute number of migration flows in a year (emigration plus immigration) relative to the total population one year earlier. The figure shows that the amount of movement first peaked in the late 1960s, and subsequently towards the end of communism in Europe. However, it remained remarkably stable from the early 1960s until the break-out of the global financial crisis in 2008. From then on, the index kept rising steadily and reached an all-time high in 2015.

Figures 1 and 2 do not differentiate among German nationals, EU citizens and others. Table 1 carries out this breakdown for 2015. It shows that around 40 percent of all immigrants into Germany came from other EU countries, about 6 percent were German nationals, often migrating back from a stay abroad, and 55 percent of immigrants came from outside of the EU. The non-EU share (defined based on the EU's current borders) oscillated between 30 and 35 percent from 2006–2013, which leaves 2015 clearly looking like an extreme outlier. This effect is even more extreme when one looks at the share of immigrants from outside geographical Europe. That share averaged at

Figure 1

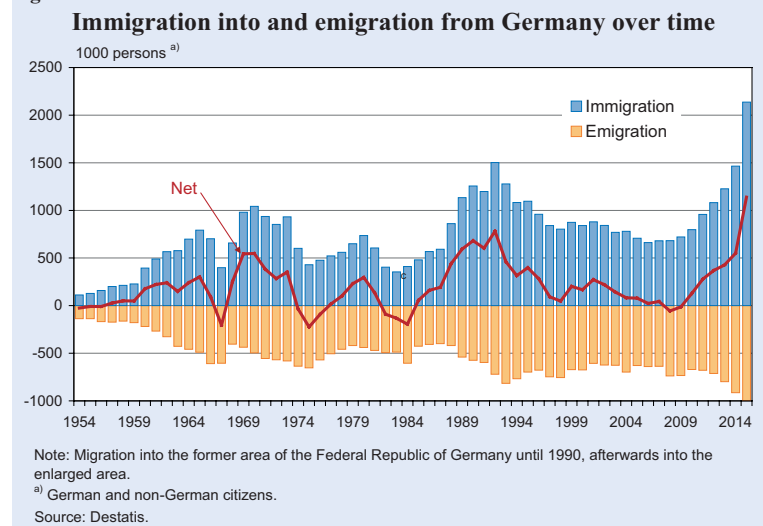
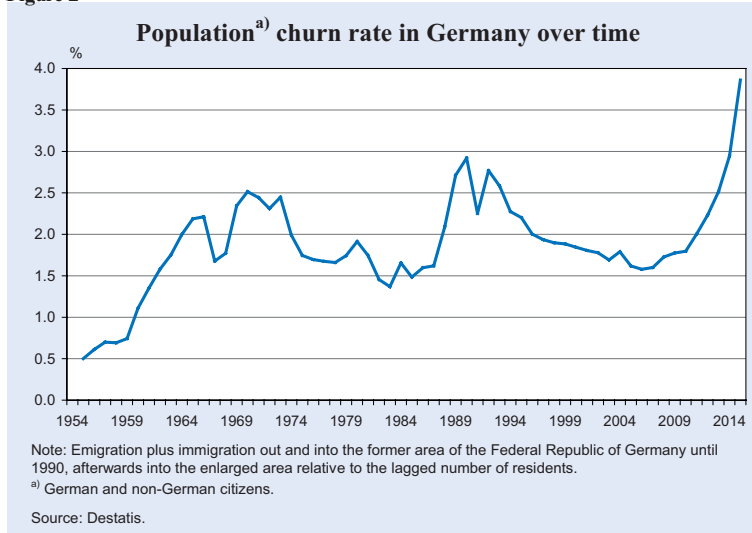


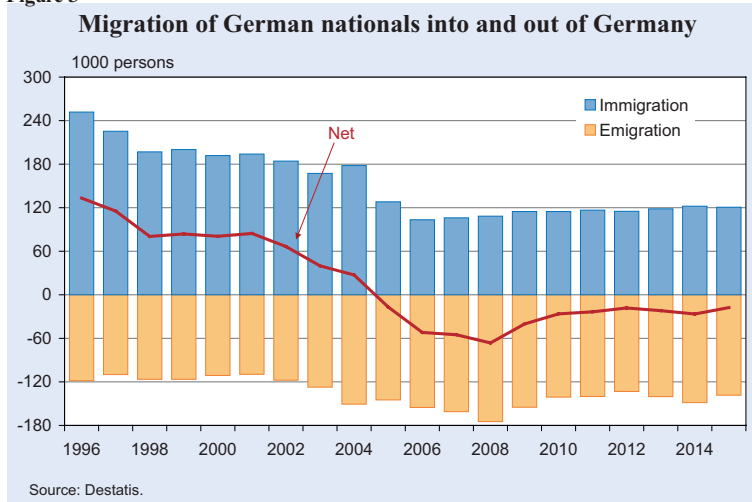
Figure 2



more Germans have left the country than returned to it since 2005. Thus, Germany is as much an emigration country as an immigration country.

The official data on migration are problematic. They tend to underestimate emigration rates, particularly prior to 2008, after which point information from tax records was used to purge non-residents from the statistics. A recent study attempts to deal with this problem (SVR 2015). It also excludes the so-called *Spätaussiedler* (i.e. ethnic Germans born abroad who return to Germany, often from the territory of the former Soviet Union). It finds that there was a net outflow of German nationals every single year from 1967 onwards. In total, the loss of nationals amounted to around 1.5 million persons. Moreover, the share of highly-skilled German emigrants was substantially larger than the share of highly-skilled returnees, signalling a brain drain, albeit on a rather modest scale.

Figure 3



around 21 percent from 1996 to 2013, but stood at exactly double that figure (42 percent) in 2015.

As for emigration rates, the share of non-EU nationals has fallen. It is also interesting to note that the emigration of German nationals slightly exceeded immigration to Germany. This general pattern can also be seen in previous years (see Figure 3). According to the migration statistics of the Federal Statistical Office,

Finally, we turn to the detailed structure of the migration statistics for 2015. Table 2 reports the facts for the top 20 sending and receiving countries. In 2015, Syria was the most important source country and accounted for about 16 percent of total immigration into Germany, but for just 1.2 percent of emigration. Over a quarter of net immigration is attributable to Syrians alone. Romania and Poland were the next most important sending countries with 212,000 and 190,000 persons respectively. In both cases, however,

Table 1

An overview of German immigration statistics of 2015

	All		Germans		Other EU citizens		Non EU-citizens	
	Number (1,000s)	% of 2014 population	Number (1,000s)	% of total	Number (1,000s)	% of total	Number (1,000s)	% of total
Immigration	2,137	2.6	121	6	846	40	1,170	55
Emigration	998	1.2	138	14	518	52	341	34
Net	1,139	1.4	-18	-2	328	29	829	73

Source: Destatis.

Table 2

Immigration of non-Germans into Germany from partner countries in 2015

	Immigration		Emigration		Balance		Index of circular migration
	number (1,000)	Share (%)	number (1,000)	Share (%)	number (1,000)	Share (%)	
Syria	326	16.2	10	1.2	316	27.3	6.0
Romania	212	10.5	126	14.7	86	7.5	74.5
Poland	190	9.4	127	14.8	63	5.4	80.1
Africa	110	5.5	29	3.4	81	7.0	41.4
Afghanistan	95	4.7	5	0.6	90	7.8	9.7
Bulgaria	83	4.1	45	5.3	38	3.3	70.6
Iraq	72	3.6	5	0.6	67	5.8	12.4
Italy	72	3.5	36	4.2	36	3.1	66.9
Albania	69	3.4	22	2.5	47	4.1	48.2
Croatia	57	2.8	20	2.4	37	3.2	52.4
Hungary	56	2.8	37	4.3	18	1.6	80.2
Serbia	42	2.1	34	4.0	8	0.7	89.3
Kosovo	41	2.0	21	2.5	20	1.7	67.9
Greece	32	1.6	16	1.9	15	1.3	68.0
Spain	30	1.5	18	2.1	11	1.0	76.2
Turkey	28	1.4	24	2.8	4	0.4	92.0
China	25	1.2	15	1.8	10	0.9	75.1
Pakistan	25	1.2	1	0.1	24	2.1	4.5
Macedonia	25	1.2	12	1.4	12	1.1	66.3
India	24	1.2	14	1.6	10	0.9	73.4
Bosnia & Herzegovina	23	1.1	16	1.8	7	0.6	81.7
USA	22	1.1	19	2.2	3	0.3	92.2
France	17	0.8	14	1.6	3	0.3	90.3
UK	13	0.7	11	1.3	2	0.2	90.2
Total	2016	100.0	859	100.0	1,157	100.0	59.8

Source: Destatis.

there was substantial return migration too, meaning that the two countries were responsible for 7.5 percent and 5.4 percent of total net immigration only. The last column in Table 2 shows an index of circular migration, which mimics the well-known Grubel-Lloyd index used in the analysis of international trade data. A value of 100 indicates that a country receives as many immigrants as emigrants, i.e. that there is pure population exchange without any net increase in the stock. That index is very low for Syria, but it is rather high for Poland.

The fourth most important sender of migrants to Germany in 2015 was Africa. The figure for the continent as a whole is not broken down by country, as this would excessively inflate the table. The most important African sending countries were Eritrea (18,000 persons), Nigeria (12,000), Morocco (12,000), Somalia (10,000), and Algeria (6,000). In all of these cases, return migration was relatively minor, and the index of circular migration was substantially lower than the average (59.8).

Circular migration dominates for many countries. It is most important for rich OECD countries; for example, the index reaches a value of over 90 for France, Britain and the United States. This figure is also high for former guest-worker source countries such as

Turkey or Serbia. It appears that the wish to return to the home country is generally strong, but people only migrate back after some years in Germany and once the situation in their home countries has improved. Most migrants from Asia and Africa come to Germany with the objective of requesting refugee status. Indeed, the Federal Agency for Migration and Refugees registered about 1.1 million persons during 2015. In other words, around half of the total gross immigration inflow seems to be driven by the refugee crisis.

Huge migration pressure expected to persist

Germany is one of the richest countries in the world. Moreover, the distribution of net disposable income is relatively equal. These factors make the country a very attractive destination for prospective migrants, at least from an economic point of view. Table 3 reconsiders the most important sending countries as of 2015. It shows the population, the share of the population that actually migrated to Germany in 2015, and the countries' levels of per-capita income relative to Germany, measured in purchasing power parity terms. Clearly, the gaps are huge. In 2014 living standards in the most important sending countries ranged from 9 percent (Syria) to 12 percent (Nigeria) and 45 percent (Ro-

Table 3

Income and inequality gaps of most important sending countries relative to Germany

	Population (million)	Emigration rate (%)	GDP per capita (in PPP) relative to Germany (%)	Gini coefficient of disposable income	Gini relative to Germany
Africa	1,184	0.01	12	46.8	1.53
Albania	3	2.38	23	31.7	1.04
Bosnia & Herzegovina	4	0.60	22	35.6	1.16
Bulgaria	7	1.16	38	36.2	1.18
China	1,369	0.00	27	47.8	1.56
Croatia	4	1.34	47	30.3	0.99
Greece	11	0.29	57	34.1	1.11
Hungary	10	0.56	56	27.4	0.90
India	1,295	0.00	11	33.9	1.11
Iraq	35	0.20	26	36.0	1.18
Italy	60	0.12	78	35.2	1.15
Macedonia	2	1.18	29	43.2	1.41
Pakistan	185	0.01	10	30.0	0.98
Poland	39	0.49	55	34.1	1.11
Romania	20	1.08	45	30.0	0.98
Serbia	7	0.59	29	27.8	0.91
Spain	46	0.06	74	34.2	1.12
Syria	19	1.74	9	35.8	1.17
Turkey	78	0.04	42	42.2	1.38

Source: Population data and GDP per capita (expenditure-side real GDP at current PPPs (in million 2011 US dollars)) data are from 2014 and taken from the Penn World Table 9.0. The Gini data come from the World Bank and refer to the most recent available year.

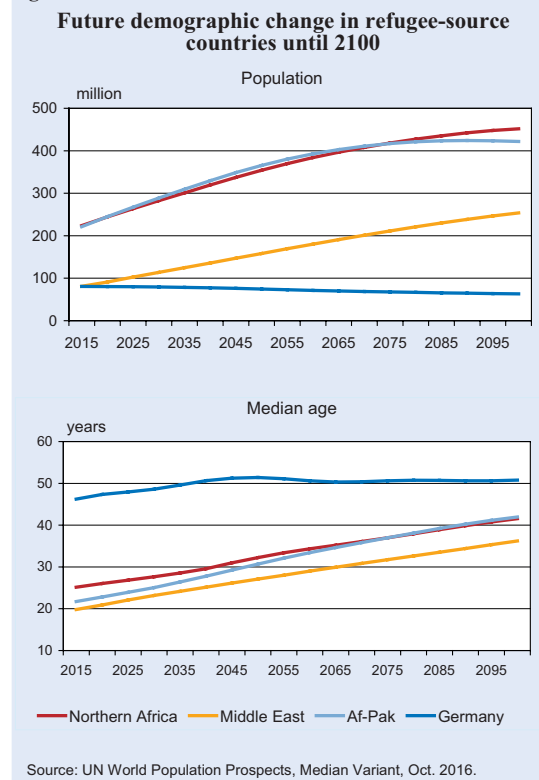
mania). This implies that average persons from these countries can hope to substantially improve their material standards of living, often by a factor of 10. Even within Europe, the gaps are still sizeable. While the income levels of poor countries are converging, the process is slow, and gaps will persist for many decades to come. Moreover, as Table 3 shows, many countries face relatively high levels of economic inequality relative to Germany. This is another factor that encourages migration towards Germany; see below for more discussion.

Moreover, many of the sending regions are facing very dynamic demographic situations, particularly when compared to Germany. According to forecasts of UN population division, under a very modest migration scenario (assuming a net immigration into Germany of 200,000 persons a year) Germany’s population is going to shrink from 81 million inhabitants today to 73 million in the year 2050 and 63 million in the year 2100. At the same time, the median age in Germany will rise from 46 years today to above 50 years 2030 and is expected to remain at that relatively high level.

Other European countries, particularly in the South (e.g. Italy) and the East (e.g. Hungary), are facing a very similar demographic future to that of Germany. However, the situation in the source countries of refugees around Europe is very different. As Figure 4 shows, median ages are very low in Northern Africa,

the Middle East and the Afghanistan-Pakistan (Af-Pak) region. The UN predicts some convergence to the German level, but at a very slow pace. In 2050, median ages will lie between 27 and 32 years in the refugee source countries; by 2100 this figure will rise to between 36 and 42 years. So the age structure is expected

Figure 4



Source: UN World Population Prospects, Median Variant, Oct. 2016.

to remain strikingly different for the next 85 years and beyond.

Fast population growth, a persistently young work force and major differences in living standards between Germany and the refugee-source countries imply that migration pressure will remain high. The size of their populations is so large, that any flows triggered by civil wars or climate change are likely to be very substantial. Unfortunately, such shocks are likely in the regions studied. Forecasts by the Intergovernmental Panel on Climate Change (2015) predict particularly severe damage (acute water scarcity) in North Africa and the Middle East. Moreover, these regions suffer from political instability, which might even be exacerbated by the world's move away from fossil fuels (a main source of export revenues in the region). Therefore, one must conclude that the sharp increase in immigration faced by Germany in 2015 is unlikely to be a one-off event. Immigration pressure will persist and may even grow. This implies that migration requires immediate management, as an increasing, young, and footloose population in Europe has much to gain by migrating to Germany.

When does immigration benefit the natives?

As shown above, migrating from a poor Southern country to Germany typically improves the quality of life of a migrant substantially. If it were otherwise, foreigners would not voluntarily move to Germany. Certainly, in the case of refugee migration, it is possible that people may be forced to leave their homes. But they may exercise discretion over which country they want to move to. Syrian refugees, for example, could have stayed in Turkish camps, but they decided to move on to Germany rather than to stay or to move to a different country like Austria, for example. The more interesting question then is how immigration affects the native population in the host country. There is a large body of literature that looks into this question. Much analysis is carried out in a very simplistic neoclassical labour market model, which gives rise to very clear predictions. Borjas (1995) presents an overview.

Let us assume that there are owners of capital who employ workers along a downward-sloping labour demand schedule. With a friction-free labour market, the market wage is equal to the contribution of the marginal (last) worker added to the labour market. In

other words, immigrant workers will bid the ongoing wage down, otherwise employment could not grow and unemployment would go up by exactly the size of the immigrant inflow. Ruling this out, an additional immigrant must lower the wage of all workers, including the wages of foreigners already in the country (the so-called infra-marginal migrants). What those incumbent migrants add to total output in the economy does not change with immigration of an additional person. Due to the lower wage, however, a larger share of the output generated by any migrant accrues to the owners of capital. If the owners of capital are natives (which is assumed in the sequel), their income goes up. The additional native capital income necessarily exceeds the loss of native wage income, because the economy makes a net gain on every new immigrant. Aggregate native income therefore goes up, but its distribution changes.

This mechanism works more generally: workers who are substitutes for immigrants tend to lose out, owners of factors (capital, land, high skills) that are complements to immigrant labour, tend to benefit, while overall native income rises too. The latter effect is called the 'immigration surplus'. Not only this benefit, but also the distribution effects necessarily associated with it, may be short-lived. The reason for this phenomenon is that higher returns on capital invite greater capital accumulation until the returns on capital come back down to their initial (equilibrium) level. In turn, a higher capital to labour ratio drives up wages, as a better capital endowment makes workers more productive. With factor prices restored to their initial levels, both the aggregate surplus and the distribution effects will vanish again. The effects on the remaining people in the sending countries are of an opposite nature. Emigration drives up the wage rate, lowers returns on capital and reduces aggregate income since the income obtained from employing the emigrants is lost.

Importantly, this theory generates gains regardless of whether immigrants are, on average, less or more skilled than natives. What matters to the existence of an immigration surplus is that the skill structure of the immigrant workforce differs from that of its native counterpart. Moreover, the existence of the surplus necessarily comes with distributional consequences. Unrealistically, in the simple setup, if the immigrant work force structurally differs from the native one, the surplus strictly increases by the size of the inflow. In other words, the bigger, the better. Thus, the model es-

essentially rationalizes unlimited immigration. This seems implausible, particularly against a backdrop of negative public sentiment regarding immigration.

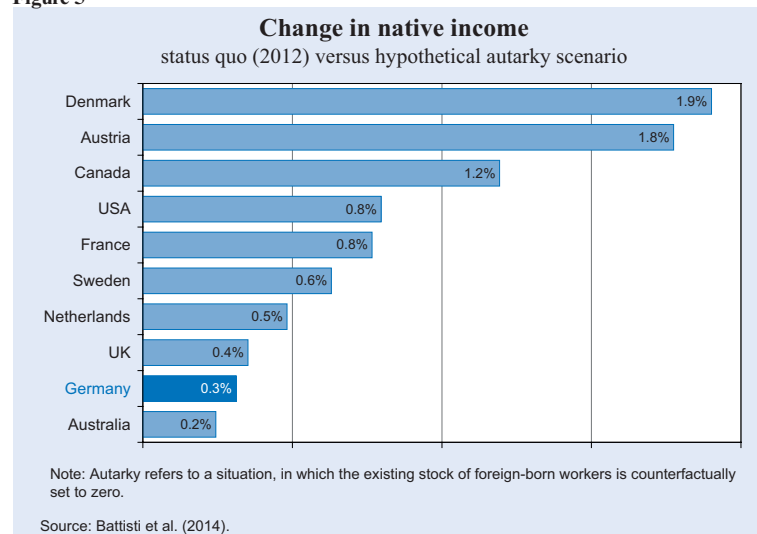
The problem with this view is that it requires neoclassical assumptions: no labour market imperfections whatsoever, and no welfare state that redistributes from rich to poor. In Battisti *et al.* (2014 and 2015) we have tried to relax these restrictive assumptions. The model allows for unemployment and for realistic patterns of wage bargaining. Moreover, there is a welfare state, which redistributes income through fiscal transfers and the provision of public goods. However, the neoclassical channel described above is still present.

We have calibrated the model to rich data from 20 OECD countries and simulated the effects of a number of migration scenarios. Figure 5 shows the results for a couple of interesting countries. A couple of important observations stand out: firstly, for the countries shown (and for the other ones covered in the paper) the presence of a foreign-born labour force has indeed benefitted the natives. However, the gains are of different sizes. If all of the present migrants in Denmark were to leave the country, the average Dane would lose income worth 1.9 percent of his/her current income (as of 2012). The same scenario in Germany, by contrast, would leave the average native German just 0.3 percent poorer.

So, even if unemployment, wage bargaining and the welfare state are accounted for, immigration still makes the average person in the 20 OECD countries better off. In Germany, the gain is worth some 120 euros per person. At 2012 prices, the annual aggregate net gain is worth about 8 billion euros. It consists of a ‘gross’ economic benefit of about 17 billion, and of transfers to immigrants from natives worth about 9 billion euros.

Battisti *et al.* (2014) use the model to ask which factors favour aggregate gains. They find that the most important contribution towards benefits for natives is the skill composition of the stock of immigrants. If the share of highly-skilled immigrants is high relative to

Figure 5

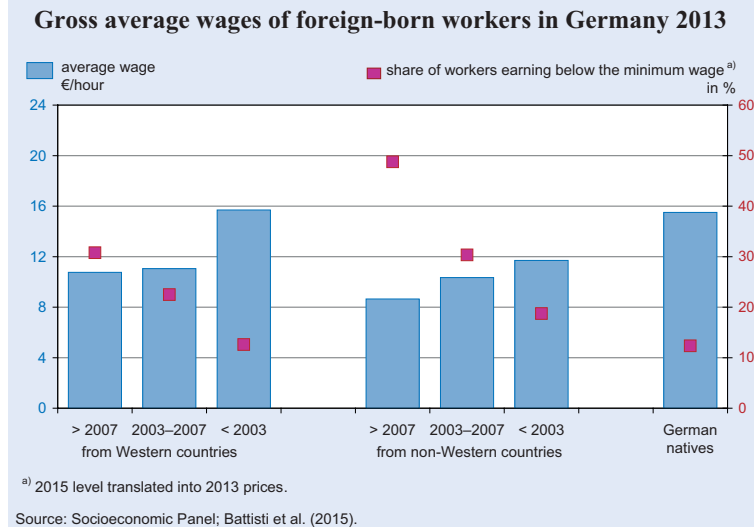


that of natives, the surplus grows. This is because highly-skilled immigrants are more likely to work and to earn high wages. This, in turn, reduces the amount of redistribution. Moreover, highly-skilled immigrants complement poorly-skilled natives (e.g. when they create own companies), making the latter more productive. Looking at Germany, the share of highly-skilled immigrants relative to natives is 0.7; while the average across 20 OECD countries is 1.0. In other words, Germany does not score very well on this statistic.

The second most important factor is the unemployment rate of poorly-skilled immigrants relative to natives. The lower this ratio is, the more likely a large native surplus is to emerge. Again, with a value of 1.8, Germany is doing worse than the OECD average (1.6). Thirdly, the more a country redistributes from the rich to the poor, the smaller the aggregate benefit will be, since (in the data) immigrants tend to have lower average earnings than natives. In this respect, Germany performs equally as well as the OECD average. The fourth driver is the size of the stock of foreign-born workers relative to the total population of workers. Medium values work best: here Germany performs very close to the OECD average of 17 percent.

In short, natives benefit more from immigration if immigrants are well-educated and have high incomes, if their rate of unemployment is low, and if the degree of income redistribution is not too high. Figure 5 indicates that Germany does not seem to benefit as much as other OECD countries. The problem is that, in the past, Germany has attracted relatively poorly-skilled immigrants.

Figure 6



11.70 euros; this is about 75 percent of the average wage of German natives. Immigrants who arrived after 2007 on average earn just 8.65 euros an hour. Figure 6 also shows the percentage of persons earning less than the minimum wage of 8.50 euros (valued in 2013 prices, this amounts to 8.32 euros). While about 12 percent of the native population earned less than this figure in 2015, the share of the non-Western immigrant population that arrived after 2007 and earning less than the minimum wage was 49 percent.

On the quality of immigrants (and emigrants)

We have seen that the quality of immigrants is a key determinant of whether natives benefit or not. Highly-skilled migrants tend to have higher than average earnings and fewer unemployment skills. Thus, they contribute to the budget of the welfare state. The fact that highly-skilled immigrants complement poorly-skilled natives means that they boost the wages and employment possibilities of the latter, which further eases public finances.

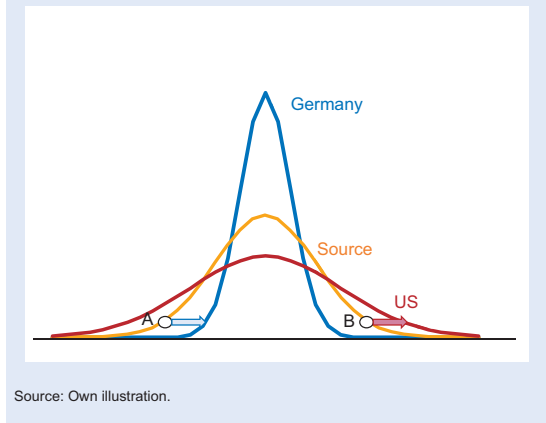
However, as discussed above, in the past, Germany has not been very successful at attracting highly-skilled immigrants. This translates into relatively low hourly wages, as shown in Figure 6. In 2013, German natives earned an average hourly wage of around 15.50 euros. Immigrants from Western countries (i.e. the EU and other rich OECD countries), who have been in Germany for at least 10 years, have earned slightly higher average wages (15.90 euros). However, those who have spent less than 10 years in the country (year of entry between 2003 and 2013), have earned substantially less. The gap between this figure and the earnings of the average native can be as high as 5 euros per hour. This difference reflects many determinants: migrants are younger than natives and less experienced, but they are also less skilled. It is this latter fact that matters for an evaluation of the immediate effects of immigration.

Things are substantially worse when one turns to immigrants from ‘non-Western’ sources (including Turkey). Even after 10 years in the country, the average hourly wage of this group amounts to only

These data show that the wages of immigrant groups can lie substantially below those earned by German natives. Given that the purpose of the welfare state is to redistribute from individuals with above-average incomes to those with below-average incomes, and because immigrants are integrated into the German welfare state (fully, when they work), their presence implies a drain on the public budgets. As explained above, this cost has to be set against the benefits for the labour market. However, the smaller the costs are, the bigger the benefits will be.

Why does Germany attract a higher number of poorly-skilled workers than highly-skilled migrants, and why is it doing worse than other OECD countries (e.g. the United States or Switzerland)? According to Borjas (1987) and a large body of subsequent theoretical and empirical research, the distribution of net wages plays an important role. Figure 7 considers three countries with the same average net wage income, but different degrees of income dispersion. Suppose an individual A in a source country is considering immigration into Germany or into the United States. Let this person occupy a rank at the lower bottom of the source country’s wage distribution, say at the 10th percentile (10 percent of the population have earnings below the associated wage level, 90 percent above). If that person can expect that his/her rank in the host country’s wage distribution would be similar, i.e. again at the 10th percentile, migrating to the United States would be associated with a likely income loss, as the 10th percentile in the United States comes with a lower wage than in the source country. Migrating to Germany, by contrast, turns out to be

Figure 7
The role of income distributions for selection of migration country



beneficial, since the net wage at the 10th percentile would be higher than in the other countries due to a well-developed welfare state (fiscal transfers plus provision of public goods financed by progressive taxation). By the same token, a person from the United States would also be better off moving to Germany. By contrast, person B who occupies a place at the top of the source-country's wage distribution (at the 90th percentile, say) would rather prefer to emigrate to the United States than to Germany, because the associated net wage in the United States would be higher there.

Clearly, this example is stylized, mainly for two reasons: firstly, average wages across countries differ and form a powerful incentive for mobility on its own (see above); and secondly, migration is costly, not only due to direct mobility costs, but also because living in a foreign country may involve psychological costs. The overall message, however, should be clear: the more compressed a net wage distribution is, the more attractive it is, *ceteris paribus*, for relatively poorly-skilled migrants; while the more unequal distribution is, the more attractive it is for highly-skilled workers. This mechanism has been reviewed empirically in many studies. Paray *et al.* (2015) provide convincing evidence for emigration from Germany, and Borjas *et al.* (2015) for Denmark.

Not only does this welfare magnet mechanism bias immigration towards poorly-skilled workers, which is problematic for the sustainability of social systems, it also leads to the misallocation of labour across countries. Since workers react to net wages rather than gross wages, elaborate welfare states invite migration to exploit differences in welfare systems, rather than in the economic returns to skills. This can lead to a situa-

tion whereby there is no immigration surplus at all, so that the fiscal costs unambiguously dominate.

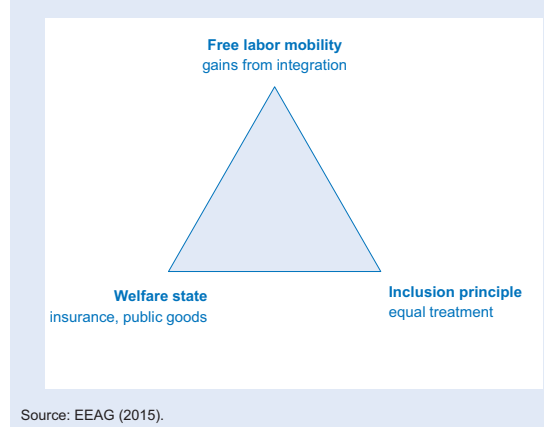
Economic policy implications

What does this mean for economic policy in Europe? First of all, it is important to ensure that immigrants work so that they contribute to the creation of added value in the host economy. Only under such circumstances can there be an immigration surplus, and the migrants can participate in financing the welfare state. In other words, to make immigration beneficial for natives, labour market institutions must allow and encourage immigrants to work. In the German context this may mean that the minimum wage needs to be rethought. One way to avoid trapping poorly-skilled immigrants in unemployment may be to exempt persons without a certain professional experience (say of three or five years) from the application of the minimum wage law.

It is also crucial to acknowledge the existence of a policy trilemma. Figure 8 shows three policy objectives, only two of which can be simultaneously pursued in a sustainable fashion.

Empirically, institutions that insure residents against bad luck (e.g. unemployment, sickness, poverty) and provide public goods (e.g. education, security, transport infrastructure) exist everywhere, but their generosity and quality differ substantially. This may reflect social preferences (the French are more risk-averse than the British), or the level of development (Germany has a more extensive welfare state than Romania), or simply the course of history (in conti-

Figure 8
An impossible trinity



Source: EEAG (2015).

mental Europe, after World War II, the pension system was essentially nationalised).

We have discussed above that countries with particularly elaborate welfare states tend to attract poorly-skilled workers who tend to be a net burden to the welfare system. In the long run, the country would have to reduce the size of its welfare state. Of course, this would only happen with open borders (free labour mobility), and under the assumption, that foreign citizens have access to the same services as natives (inclusion principle). Consequently, instead of curbing the welfare system, countries could also limit migration, or abandon the inclusion principle. To be sure, the welfare state is a major achievement, and there is a broad consensus in our societies that it should be maintained. Indeed, given the challenges from globalization and technological change, it may be necessary to expand the role of the state in providing insurance to citizens. Therefore, curbing the welfare state is not an option.

The two remaining options are (i) restricting migration, or (ii) abandoning the inclusion principle. Option (i) seems problematic, as it implies giving up the economic advantages that immigration confers to natives, and, even more so, to the migrants themselves. Some countries such as Canada or Australia have policies in place that effectively limit migration to high-skilled workers only. Such a policy might not be suitable for Germany: firstly, it is questionable whether Germany is attractive for highly-skilled workers given its relatively high tax burden (compared to e.g. Switzerland or United States); secondly, due to demographic change, Germany may well need poorly-skilled migrants too, e.g. in services industries such as health care, accommodation or logistics. Option (ii) is more promising, because it would limit the fiscal costs of poorly-skilled immigration. It implies that migrants would remain in their source country's welfare states to which they would continue to contribute and from which they would receive benefits. In other words, differences in welfare states would cease to act as an incentive for migration. This regime would maintain economic efficiency, but it would essentially create a two-tier society in the host countries of native and immigrant workers covered by different systems. This does not need to be unfair, however, since migrants from low-welfare-state countries would receive smaller benefits, but would also pay lower contributions. An added advantage of this scheme would be that source country governments do

not lose resources. Clearly, there should be some transition process whereby migrants are gradually moved from their source country regime into the host country system.

Replacing the inclusion principle with the source country principle would change the rules of the European Union, and it would require agreements with sending countries outside of the EU. However, it would limit abuse and solve the impossible trinity. Ideally, the EU should design a system of portable social security claims. This would facilitate the efficient functioning of a truly European labour market, where workers' contribution to welfare systems could be transferred from one country to the other, but their entitlements would be shaped accordingly. Moreover, as shown by Felbermayr and Kohler (2010), the immigration surplus can only be redistributed to natives such that everyone (i.e. highly- and poorly-skilled workers) is made better off, if migrants themselves are excluded from such a redistribution scheme.

Europe faces an unpleasant choice, both in terms of internal and external migration. Without changing the inclusion principle, support for the free movement of labour between EU member states will come under increasing political pressure. Abandoning the principle, however, would risk making our societies more unequal, as the social security treatment of different individuals would be heterogeneous.

With respect to external migration, the trade-offs are even starker: if Europe becomes a fortress that prohibits the immigration of poorly-skilled workers, it denies the possibility of a better life to millions, but it can maintain inclusive social systems. If it allows unlimited immigration but includes everyone in its welfare systems, fiscal sustainability will be jeopardized. If, on the other hand, it allows for the different fiscal treatment of immigrants (foregoing the inclusion principle), it could combine relatively free immigration, guaranteeing large gains to the migrants themselves and more modest ones to the average native, with the existence of a welfare state, but the price would be the presence of a (temporarily) underprivileged class. Again, limiting the inclusion principle appears to be the best choice. In this way, our societies could maintain relatively open borders, guaranteeing gains to natives and migrants. This solution, however, involves sacrificing a golden calf: namely the inclusion principle.

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PANEL

Can the new wave of migration turn into a win-win situation for both the immigrants and for Europe? This was the question addressed by Panel 2, chaired by **Edward Lucas**, Senior Editor of *The Economist*, London.

After an introduction by Gabriel Felbermayr, Mr Lucas asked panel member **Kemal Sahin**, founder of the Sahinter Group in Istanbul, about the employability of the recent migrants. Mr Sahin argued that immigration is necessary in light of the need for skilled workers, as well as the problem of ageing societies. His own factory in western Turkey has difficulties finding skilled workers. In the border region to Syria, the refugees have been given work permits, and border cities like Gaziantep are now prospering. Mr Sahin said that his clothing business has become increasingly global and has learned to deal with different national cultures. He has also set up a foundation in Cologne, that helps young immigrants to realise their potential and

shows them the benefits they stand to reap from their own cultural backgrounds. Schools, he noted, must also learn how best to promote children from different cultures. Politicians need to stress the contributions made by immigrants, especially to financing the retirement system.

The next panel member, **Reinhard Ploss** of Infineon Technologies, observed that his company needs highly educated personnel to continue growing, and that these people must be sourced internationally, especially in order to compete in global markets. The education levels of current migrants in Germany vary significantly. At Infineon, Mr Ploss sees the diversity of integrated cultures as an enriching factor. "There is a great opportunity in migration", he noted. All employees, however, must accept the values that the company is based on. This also holds for society in general. The situation we are now facing can only be handled in a multi-generational effort. "We as a country need this migration in order to bring in capable people". In a global economy, it is wrong to think only in isolated, national terms. Mr Ploss was impressed by how people in Germany dealt with the huge inflows of refugees in 2015. "The message from the people was: we see this is a major problem, we don't know how to deal with it, but we're willing to tackle it". Politicians must also learn to talk about the practical solutions to the refugee crisis.

Elmar Brok of the European Parliament subsequently presented a politician's view of the current refugee crisis. For him the fear of losing one's economic and social position is behind the rise of populism in Europe, although this fear does not stem from migration alone. The wave of migration in recent years, however, has given rise to the widespread belief that politicians are not in control of the situation. For years, the EU Commission has made proposals regarding refugees that were not accepted by the member states. Germany changed its mind last July when faced with a flood of refugees. "Now we must painstakingly introduce order in this process to convince public opinion that politicians are able to cope with the problem", noted Mr Brok.

Responses to the crisis also differ from state to state across Europe: the French do not have the same demographic problem as the Germans. The refugee agreement with Turkey has been a success in that it supports the refugees on the ground and combats human smuggling. In terms of migration from Africa, we have a long-term development problem that must

be dealt with using new trade policies and a new Africa policy. In Mr Brok's view, the problem with human smugglers in Libya, which is controlled by ISIS, is particularly grave. This 'business model' must be destroyed or else we will see a new wave of refugees, but this can only be achieved if the African shores can be controlled. A European asylum policy can only be developed if the pressure is removed and countries can rest assured that inflows of immigrants can be limited.

The brain-drain is another problem that urgently needs to be addressed. An immigration policy must not only egoistically look at what European countries need in terms of human resources, but also at what is best for the development of the countries-of-origin that immigrants are leaving. Those with refugee status should receive vocational training, so that they can return to help rebuild their homelands combined with EU assistance to these countries. Finally, Turkey, which has taken in three to four million refugees in recent years, now needs help. Mr Brok described cutting assistance for food in the refugee camps as 'a glaring mistake of Western policy'.

Mr Lucas then asked Gabriel Felbermayr to go into more detail on the distribution of the net gains of migration. "Where are the gains and where are the adjustment costs? What policy measures can help cushion the adjustment costs for those sections of society that feel they are bearing the brunt?" Mr Felbermayr agreed that the low-skilled often lose out from labour mobility, as well as from immigrant labour. It is important to signal to these people that immigration is under control and to show that the welfare state is helping to provide economic security. Investments in human capital enable low-skilled individuals to move out of the market segments that are under pressure and be better off in the long run. This, of course, assumes flexible labour markets and government incentives for workers to upgrade their skills. Keeping immigrants out of the labour market creates pressure elsewhere, namely on the welfare state. If they work, this represents a gain for both the domestic population and the welfare state. "We need a welfare state that both cushions and incentivises participation in upgrading the skills of natives and immigrants at the same time", noted Mr Felbermayr.

Mr Sahin observed that the refugees in Turkey possibly contributed to the unexpectedly high economic growth (4.8 percent) in the first quarter of 2016. This growth was generated by domestic demand and immi-

grants certainly played a role in fuelling it. Lowering the minimum wage for immigrants, according to Mr Brok, would send out a 'catastrophic message' to native workers that immigrants are taking their jobs.

The first comment from the floor came from former US diplomat and international business consultant **John Kornblum**. In his experience, Germany is not seen as a country that welcomes immigrants. In Berlin, a community action group that works with him has met with strong opposition from bureaucracy in the city government. **Christine Kuptsch**, Senior Specialist in Migration Policy at the International Labour Office, suggested that Mr Felbermayr change his terminology of 'welfare tourism' in connection with the attraction of the welfare state. Migration research has confirmed that decisions to migrate are not made based on welfare-state considerations, people tend to go where they can find work. Mr Felbermayr agreed that although the welfare magnet exists, it is of minor importance in terms of the overall volume of migration flows.

Winding up the questions from the floor, Mr Lucas asked: "how can we define the actual practical steps that need to be taken to get out of this serious crisis?" Mr Brok observed that a great deal of progress has been made at the EU level since last autumn. More implementation is now needed at the national level, for example, in sending the promised personnel to Greece to control immigration. "We have wonderful decisions at the European level, but not so wonderful implementation at the national level", observed Mr Brok. He expressed the hope that the Brexit shock will help us to concentrate on issues that member states cannot resolve on their own: "if we can show that we can bring order in immigration at the European level, the rest will follow".

Panel 3

Introduction

MELTING THE POT?**ARMIN NASSEHI***

Immigration is one of the most widely discussed issues in public debates across Europe. An observer wishing to paint a picture of European, or even of German views, would conclude that immigration and the integration status and problems of immigrants are a crucial nexus of social order and problems. All over Europe, migration policies and especially the huge influx of refugees in 2015, have become a highly controversial issue. Migration issues have also given a huge boost to right wing parties in France, Britain, the Netherlands, Denmark, Hungary, Austria, Greece and Germany. The dividing line between political camps in Europe can be defined by their attitude towards migration. It is possible that political programs and attitudes are no longer defined by the differences between middle-class and lower-class orientations, or between liberal and socialist leanings. The politically relevant division now seems to be whether individuals favour an inclusive or exclusionary approach to immigrants.

This is an almost paradoxical situation, as we know that the German welfare system, for example, depends on a high number of immigrants into the labour market over the decades ahead. According to research by the Bertelsmann-Foundation, Germany needs a steady influx of 300,000 to 500,000 immigrants per year from non-EU-countries in the short term. It is undisputable that the refugee immigration seen in recent years will not address these economic problems. It is also undisputable, however, that European countries, and especially Germany, have to develop an effective immigration policy due to their demographic structure. This is undoubtedly a paradoxical situation: the

future of Europe depends on immigration in the near future, and yet immigration is one of the most hotly contested issues in political debate, with far-reaching consequences for national politics and political party systems. The resurrection of nationalistic tendencies – both on the right and left wing – is an outcome of this paradoxical situation.

In my view, migration issues are merely acting as catalysts for pre-existing social conflicts and insecurities in European societies. Immigration was a powerful symbol in the Brexit-campaign in Britain – a symbol for a *rendezvous* with globalisation that triggered uncompromising forms of political protest and resistance. In all European countries, the success of right-wing parties and right-wing campaigns are related to migration topics, but what they fundamentally represent is a more basic criticism of modernisation processes.

This is in no way a bid to play down the problems related to migration in Germany or underestimate the challenge posed by huge influxes of refugees for Germany and Europe. However, I am convinced that the overestimation of migration problems is underpinned by basic social problems and general perceptions that today's world is a stressful place.

My argument is structured into five tiers.

Firstly, before thinking about appropriate integration concepts and tools, it is necessary to recognise the environment in which discussions over migration and integration are currently taking place. Migration problems are like a gift for simplifiers. We live in a world in which the shape of society and the origins of social problems have become confusing, and to some extent inexplicable. That is why right-wing demagogues are used to hating the European Union more than immigrants and foreigners. The European Union, as well as the financial crisis and expectations/fears of social inequality, seem to be topics that can only be explained by experts and scholars. The complexity of modern society, the interconnectedness of social structures, and the high level of uncertainty in decision-making both in political and economic affairs has become a widely shared experience not only in the lower classes



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of society, but also amongst the middle classes and the educated parts of society.

Of course, we live in a world in which simple causalities no longer apply. In the wake of the Brexit-referendum, for example, many people are beginning to learn just how complex the structures of the political, economic, scientific, cultural and legal dependencies among European countries have become. So many reasons for the campaign against the EU have now been unmasked as dramatic simplifications – but also as realistic experiences in a complex society, which has failed to develop narrations for this new and complex situation. The narrations that were available for the different milieus and social groups in society, symbolised both in political party programs and expectable life-forms in different milieus, are no longer applicable. As we know from psychological research, the experience of insecurity and fear increases at times when there are no available explanations for ongoing events. During the classical era of industrial modernity the nation-state was not only a form of identification that transcended social milieus, social strata and different life-forms. The nation-state was also a limiting factor for the observation of the world. The limited perspective of the nation-state provided a sense of order during modernization processes in terms of economic and technical development, the accelerating speed of social processes, the pluralization of life-forms in a consumer society, etc.

Although migration can be regarded as a matter of fact for all human societies in history, modern societies have nevertheless developed a special form of homogeneity in terms of ethnic or national identification. In times of rising migration flows and growing social plurality and complexity, the need for greater transparency and clarity also increases as a result. As noted above, migration issues tend to catalyse conflicts in modern societies. The reason why migration issues have become the allegedly most important problem of many countries in Europe can be seen as a reaction to the problem of complexity.

Since the demise of the autonomous and self-sufficient nation-state, the highly complex nature of modern societies has become increasingly visible and is perceived as threatening to swathes of people across all classes of modern societies.

A complex system like a modern society is defined by what I will refer to here as a problem of understanding

and description. Strictly speaking, complex societies can only be understood by digital means and *via* complex explanations. Reduced to a formula, explanations are only possible with statistical groups not with social groups; and in that sense must rely on digitalised information, whereas people are in search of analogue information. The need for visible information to understand societal structures and developments is counteracted by the stunning insight that the complex interaction between different factors of societal relevance is becoming increasingly invisible. As a result, modern society can only be understood by digital means, but lives have to be conducted analogously. Immigrants, and particularly refugees, can be perceived as analogue, visible and really existing social groups. They symbolise a special kind of high-profile visibility in an increasingly intangible and complex world.

This is important to bear in mind for members of the educated higher, middle classes and members of decision-making elites seeking to understand why migration has become the most visible symbol of an, in principle, invisible, confusing, and barely understandable world. This in no way exculpates right-wing policies or prejudices against immigrants; but research shows that there is a high correlation between xenophobia and the experience of confusion, if only a media-produced confusion, led by the idea that a bad story is a good story. The middle class standards of universalistic arguments are often far removed from the experiences of groups of society living in a world that seems increasingly unstable.

Confidence in society's basic institutions such as the state, political parties, the media, the education system, and even in the church, has waned dramatically. In addition, confidence in individual economic success as a driver of social advancement has also been eroded. Recent surveys prove that the Germans in particular are quite anxious about the future. This may sound strange in view of Germany's economic success and the high standards of its welfare state. But these are the attitudes overshadowing the public debate on asylum and immigration problems in Germany. Whether refugees really are rivals and competitors remains to be seen – but they are becoming recognised as competitors and symbols of a change in society and culture. Angst and concern are the most plausible semantics of the public debate in Germany.

Germany today is undoubtedly an immigration country: 20 percent of the population has a migrant back-

ground. But Germany did not really accept its identity as an immigration country until very recently. The integration situation in Germany is far better than its reputation. Problems nevertheless persist: a migration background still entails the risk of poorer performance in education, the job market and the housing market. Beyond this, migrant milieus are also heavily segregated in many German cities. German society has tolerated such segregation, because there was no real awareness that Germany is undoubtedly an immigration country that needs to cope with the long-term presence of people with a migration background. Germany's first step towards accepting its role as an immigration country was the reform of its citizenship law in 2000. This marked the first move towards a normalization of immigration to Germany.

Different areas of conflict exist as far as migration issues are concerned:

- The most decisive point to be mentioned is that public awareness of migration and migrants is characterised by negative diagnoses, problems and conflicts. This is a highly paradoxical finding, because what we call successful integration is synonymous with a special kind of invisibility. Well-integrated migrants are characterised by the fact that their status as migrants does not determine all other information concerning their lives. Good integration means becoming more alike the autochthonous population. So the debates on migration issues often have a negative bias. The following areas of conflict are not representative of the migration situation in Germany, but still need to be discussed.
- There are highly integrated migration communities in several German cities. The term 'highly integrated' means that membership of these communities superposes all other activities. One of the results is that members of such groups have only a low likelihood of leaving these closed communities and of climbing the social ladders successfully. One of the most important challenges in terms of the refugee crisis is to avoid such parallel-structures.
- One highly disputed issue is the level of crime among migrants. The level of crime among the immigrant population in Germany is about 24 percent higher than the average rate. But if the social status of the foreign population gets rated out, there is no difference between the autochthonous and the allochthonous population in Germany. This is another finding which proves that the inte-

gration status of migrants in Germany is better than its reputation.

- The most frequently discussed issue is religion. As we know from survey data, the attitudes towards migrants in Germany highly correlate with religion. In simpler terms, a general rejection of migrants does not exist in Germany, but a high level of rejection of Muslims. Islamic self-identification has undoubtedly become a source of identity politics for migrants from Islamic countries in all European countries. Strikingly Islamic identification was neither a conflict point nor a special resource for the first generation of migrants. But since a politicized Islam has become one of the conflicting ideologies from a global perspective, this identity feature has emerged as a resource for both self-identification and for coping with the experience of precariousness.

These fields of conflict are the main obstacles to a rational and unemotional public debate on migration issues. What we know from research is that these fields of conflict interfere with general atmospheres of fear and social inequality. The refugee crisis has triggered a general mood of discomfort over the future of migration policies in Western countries. In the special case of Germany, it seems to be a somehow invisible matter of course that an active policy of immigration is overdue. Germany is probably now paying the price for its inactive migration politics in recent decades.

Compared to classical immigration countries, Germany has never pursued an active immigration policy – apart from its recruitment of workers from southern-European countries and Turkey prior to 1973. But this recruitment was not meant as an immigration policy, but more as a sporadic solution for problems in the labour market. The most decisive difference between Germany and classical immigration countries is that the latter countries use immigration to solve their own problems. There is a difference between an active and a passive form of managing this issue. Classical immigration countries produce a special kind of inclusive dynamism, which is often combined with more liberal and competitive ideas of society than welfare-oriented or social-democratic ideologies. This seems to be a contradiction, but the integration of immigrants in a country like Germany with an active and inclusive policy based on the concept of an active and regulating state differs from states with a more individualistic idea of personal success. The bureaucratic obstacles to integrating refugees into the labour mar-

ket can be interpreted as a symbol of a lack of flexibility in coping with unexpected situations.

Recent experiences with the refugee crisis may offer an opportunity to learn more about what integration means. Public debates tend to make integration sound like an issue of compliance with the host country's legal order or constitution, and a willingness to comply with its culture or not. Such compliance is not, however, the starting point of the integration process but – in the best scenario – its outcome. What immigrants need are what I would like to call docking points to social institutions. Modern ways of life are not organised centrally. Members of modern societies, both allochthonous and autochthonous, are not the inhabitants of containers and closed groups, but are selectively connected to different institutions and instances of society. Modern lives have to be conducted individually. Integration into society means finding an arrangement to manage these different connecting points and avoiding being a member of highly-integrated social groups that cannot be transcended.

An active migration and refugee policy has to be aware of such structures and has to take into account that a catalogue of measures should begin with the idea of providing chances of connecting with labour markets, housing markets, and other institutions of society. Religious beliefs emerge afterwards, when the connection to these institutions has produced life-forms, in which the status of immigrant is not the only information about a person.

In that sense, Germany has to develop a more active immigration and integration policy. The public discourse about immigration and integration in Germany too often discusses abstract, academic problems of cultural differences, of the compatibility of ways of life and of religious ideologies. As mentioned above, conflicts with cultural or ethnic roots are not the starting point of integration problems, but their outcome. Many cultural problems will therefore become less likely to occur when immigrants have a chance to participate in the practical areas of everyday life. Key factors in successfully forging immigrant integration are language, education, employment, avoiding segregation and a sense of belonging to the country.

A large share of the recent influx of refugees cannot start work immediately, but should, in my view, be integrated into the labour market as soon as possible. It

will take a long time for refugees to become net contributors. This economic perspective is probably an overly pessimistic view, because it does not take the secondary effects of such employment into account. Even if this pessimistic view may be true in economic terms, however, working is necessary to promote the integration of immigrants and refugees. Measures such as the liberalisation of labour markets, qualification programs, or second labour market programmes need to be implemented to accelerate this integration process. In realistic terms, this kind of immigration requires an active and supporting policy – both on behalf of the refugees and the autochthonous population that also stands to benefit from such programmes. This could take the form of an investment programme – both an economic investment, but also an investment in integration success.

To conclude, the immigration situation in Germany is characterised by two paradoxes: firstly, although there has been a negative backlash due to the high influx of immigrants, Germany actually needs an even greater number to address its demographic problems. What Germany needs, however, is immigration into the labour market, and that means introducing an immigration law with a discussion over active immigration policies. The best case scenario would be to combine this active immigration policy with humanitarian elements.

The second paradox is that although we all want well-integrated immigrants who have the opportunity of social advancement, this will produce another kind of conflict, as these well-integrated people will make demands on society. Germany has little experience of such demands and conflicts to date, so we have to prepare our public and our institutions to handle these new forms of diversity. Perhaps there are lessons to be learned from traditional immigration countries in this context.

PANEL

This panel, chaired by **Quentin Peel**, Contributing Editor of the *Financial Times*, focused on the instruments and institutional measures needed for the successful integration of migrants, especially at the micro level.

The Introduction was provided by Armin Nassehi, Professor of Sociology at the University of Munich. Mr Peel then asked **Cardinal Reinhard Marx** how he

sees the challenges facing Germany in successfully integrating the new immigrants. Cardinal Marx reported that despite all the problems, in his parishes there is an unabated willingness to help. His diocese spans over twenty different ethnic congregations and includes a large number of immigrant parishioners who are very well integrated. Faced with the present challenge, the Church is taking an active role, although there is now a greater need for professional input, rather than voluntary work. The Church is willing to do its part, but a major question is what the future vision of our society will be?

Cardinal Marx highlighted the current movement towards national interests, identities and security. “As a church we are the true internationalists and universalists”, noted Cardinal Marx. He rejected the current, backward-looking trend towards nationalism as a vision for the future. Quentin Peel observed that the current public narrative on immigration is negative, and focused entirely on how it can be controlled and limited. This narrative can be changed, according to Cardinal Marx, by defining a vision of society in Europe. In the future most of us will live in multi-cultural situations and will have to learn to respect each other without sacrificing our principles. “The desire to return to a homogeneous society is a regressive narrative when what we need is a forward-looking narrative”, he explained.

Aida Hadzialic, Minister for Education and Research in Sweden, highlighted the macroeconomic indicators that have helped Sweden to deal with the migration challenge. In the early 1990s, when her parents brought her to Sweden from war-torn Yugoslavia, Sweden was in a far poorer economic situation than it is today, but still took in many migrants and managed to integrate them fairly successfully. The employment rate of her group of immigrants is now in parity with that of the native Swedish population. Her circumstances are similar to the situation today in some ways, although the cultural differences between today’s migrants and the native population are greater and present problems. Nationalism, as witnessed in the break-up of Yugoslavia, is definitely not the answer. “We do, however, need to talk about the national identity of our countries and the European continent”, warned Ms Hadzialic. Our cultures, values and traditions are important – if this is seen as relative, the populist parties stand to gain ground. “We need to create a common ground rooted in our basic Western liberal values”, she added.

Ulrich Hörning, Deputy Mayor of Leipzig, agreed that: “we must not leave the identity debate to the false simplifiers of nationalism, but need to consciously promote an identity of democracy, liberalism and Western values”. Although Leipzig is enjoying growing economic success, it remains a poor city, and the new migrants are moving into neighbourhoods where people often feel marginalised. “We are now dealing with a humanitarian assistance situation, but are also working within the confines of the German regulatory state, with data protection, fire protection, monument protection, and few of these regulations have been relaxed”, explained Mr Hörning. He hopes that this proves to be a shock that will lead to a modernisation of the administration in Germany to prevent benefit misuse and non-integration, and with less of an emphasis on benefits and more on social services.

Quentin Peel referred to the demographic of people that feel left behind – the identity question seems to be a cover for the fact that they have lost out economically. Armin Nassehi observed that this question is often an ‘empty signifier’ that arises out of an economic crisis or uncertainty over whether society works. It is also present in the middle class among those who fear decline. Modernity itself is stressful and a challenge for both immigrants and society as a whole. According to Peel, “we need a narrative to talk about something that can be transformed into policy, political programmes and public communication. Integration into labour markets is the starting point for integration into society. This worked for the first two guest-worker generations in Germany even without an immigration policy; now it is the identity problem that needs to be solved”.

Cardinal Marx added two comments. With regard to ‘identity’, he emphasised that agreement on a ‘civil religion’ is precisely “what we do not want”. Integration means adhering to basic values, as well as providing room for a diversity that can be quite broad-ranging. Secondly, we need a new development aid policy to improve conditions in the sending countries, but also to train migrants here, with a view to them potentially returning to their home countries in the future. “We should see migration in global terms and not simply in terms of our own national interests”, said the Cardinal.

Aida Hadzialic pointed out that the nationalist party in Sweden has recently won over a lot of voters from the conservative party, i.e. from the more prosperous

citizens who feared that the changes were happening too rapidly. Norway also has a growing populist party, primarily due to issues of culture and identity. “We must stick to our values of democracy and equality and we must insist that there are rights and obligations for everyone, and that we all have a common obligation to continue to develop our societies”.

Ulrich Hörning observed that the more heterogeneous a society is, the less support there is for redistribution. For a political consensus on redistribution to exist, there must be “a unity of the national state, identity, territory, taxation and public-goods provision”. A problem arises, for example, when the German state offers full social benefits to other EU nationals. “We must try to achieve differentiation at the national and EU level, for if the social consensus on the financing breaks down, we are in a dire situation”, warned Mr Hörnung.

John Kornblum suggested avoiding using the word ‘migrant’, as it has negative connotations. In his view, dropping the term would contribute to the integration of immigrants. Armin Nassehi agreed, arguing that migration is only one particle of identity, and that societies without migrants also have integration problems.

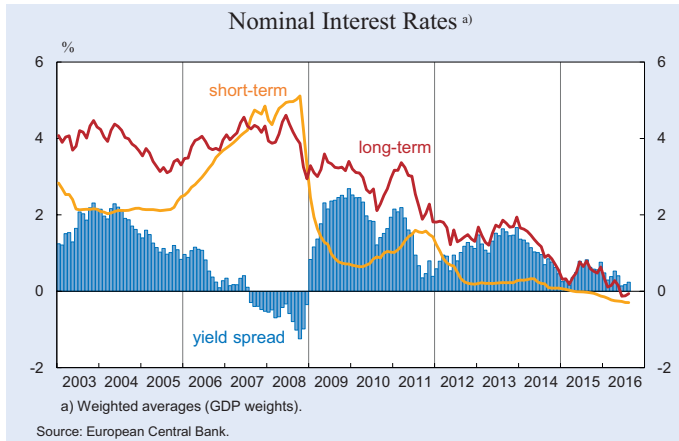
Cardinal Marx stressed that for Christians all human beings are created by God and are therefore all children of God. For this reason it is impossible to send anyone back to a war zone or to face persecution.

Osama Abdelmoghni (Les Comptoirs, Paris) wanted to know how integration will work if it means giving up your cultural identity parameters. Aida Hadzialic responded that by saying believing in Western liberal democracy does not involve asking anyone to give up their own cultural traits. “We’re also not asking the native population to give up their cultural identity, and this is a problem that those in authority must address”, she added. In Ms Hadzialic’s opinion, new arrivals in a country need to be granted the same rights and opportunities as its native population. This was what enabled her to climb the ladder from being a child war-refugee to becoming a government minister in Sweden.

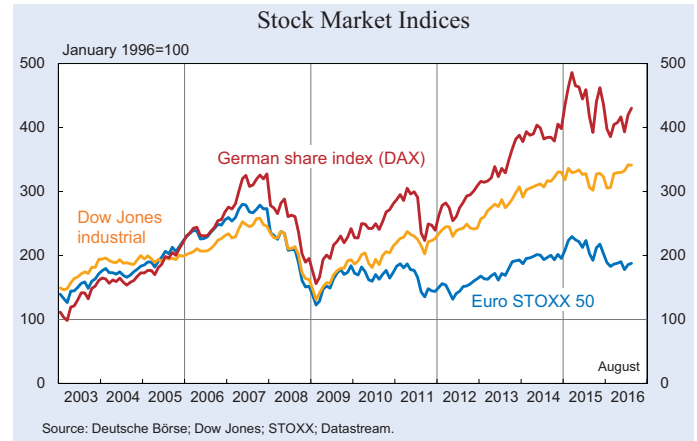
Quentin Peel then asked whether public authorities across Europe are trying to limit the number of immigrants by making life as uncomfortable as possible for them in order to discourage more from coming.

Ulrich Hörning expressed the hope that this is not the case in Germany, but noted that such policy decisions tend to be taken at a federal level, and not by local government.

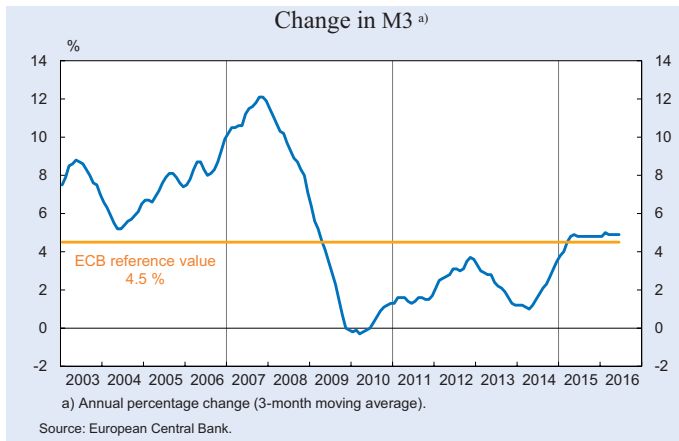
FINANCIAL CONDITIONS IN THE EURO AREA



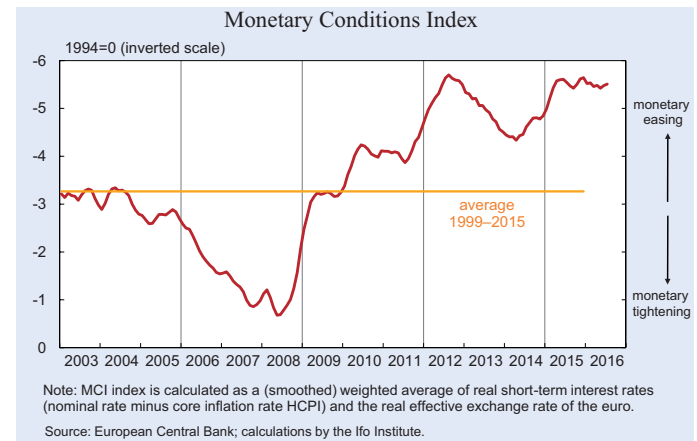
In the three-month period from June 2016 to August 2016 short-term interest rates decreased: the three-month EURIBOR rate declined from -0.27% in June 2016 to -0.30% in August 2016. Yet the ten-year bond yields increased from -0.13% to -0.06% in the same period. The yield spread reached 0.24% in August 2016, up from 0.14% in June 2016.



The German stock index DAX increased in August 2016, averaging 10,593 points compared to 9,680 points in June 2016. The Euro STOXX also grew from 2,865 to 3,023 in the same period of time. The Dow Jones International increased as well, averaging 18,401 points in August 2016, compared to 17,930 points in June 2016.

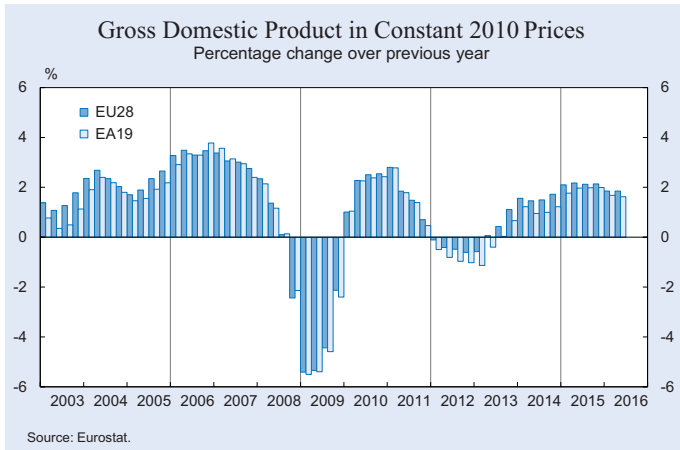


The annual growth rate of M3 decreased to 4.8% in July 2016, from 5.0% in June 2016. The three-month average of the annual growth rate of M3 over the period from May 2016 to July 2016 reached 4.9% .

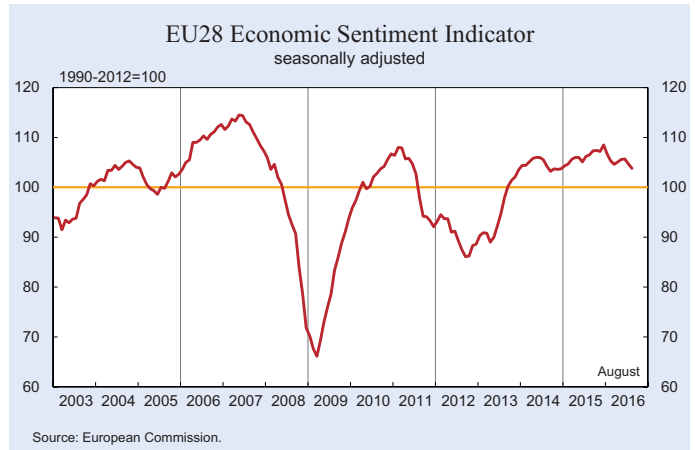


Between April 2010 and July 2011 the monetary conditions index remained rather stable. This index then continued its fast upward trend since August 2011 and reached its peak in July 2012, signalling greater monetary easing. In particular, this was the result of decreasing real short-term interest rates. In July 2016 the index started to slightly grow again while some minor fluctuations have been observed in last months on a high level, comparable to that of July 2012.

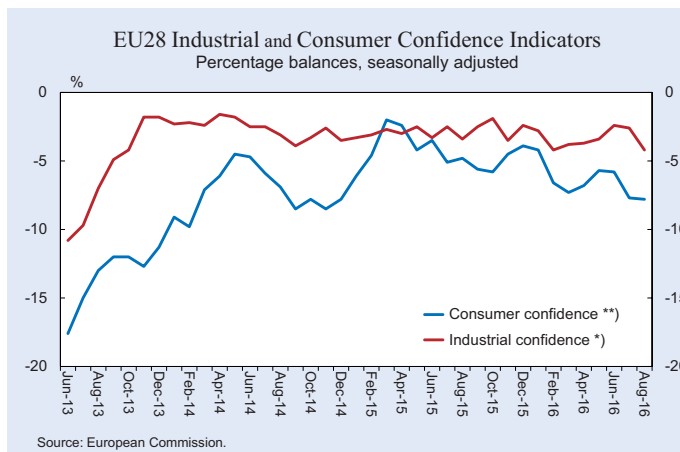
EU SURVEY RESULTS



According to the Eurostat estimates, GDP grew by 0.3% in the euro area (EA19) and by 0.4% in the EU28 during the second quarter of 2016, compared to the previous quarter. In the first quarter of 2016 the GDP grew by 0.5% in both zones. Compared to the second quarter of 2015, i.e. year over year, seasonally adjusted GDP rose by 1.6% in the EA19 and by 1.8% in the EU28 in the second quarter of 2016.



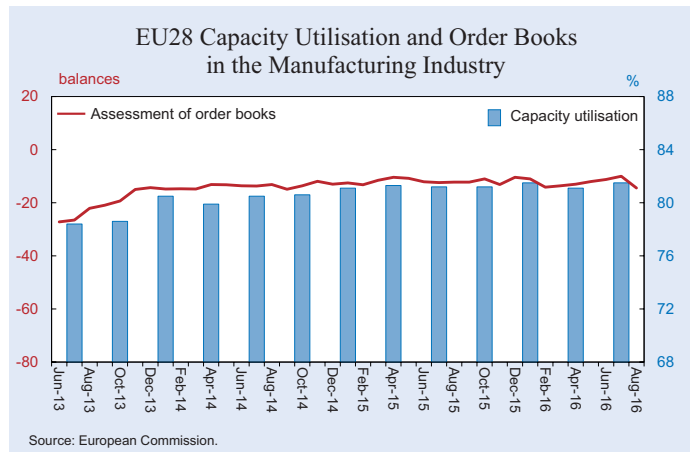
In August 2016 the Economic Sentiment Indicator (ESI) decreased in the euro area (by 1.0 points to 103.5) and the EU28 (by 0.9 points to 103.8). In both the EU28 and the EA19 the ESI stands above its long-term average.



* The industrial confidence indicator is an average of responses (balances) to the questions on production expectations, order-books and stocks (the latter with inverted sign).

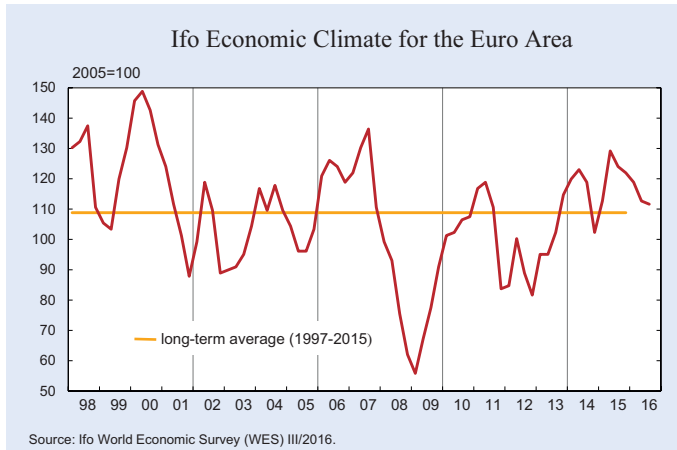
** New consumer confidence indicators, calculated as an arithmetic average of the following questions: financial and general economic situation (over the next 12 months), unemployment expectations (over the next 12 months) and savings (over the next 12 months). Seasonally adjusted data.

In August 2016, the *industrial confidence indicator* decreased by 1.6 in the EU28 and by 1.8 in the euro area (EA19). The *consumer confidence indicator* also decreased by 0.1 in the EU28 and by 0.6 in the EA19.

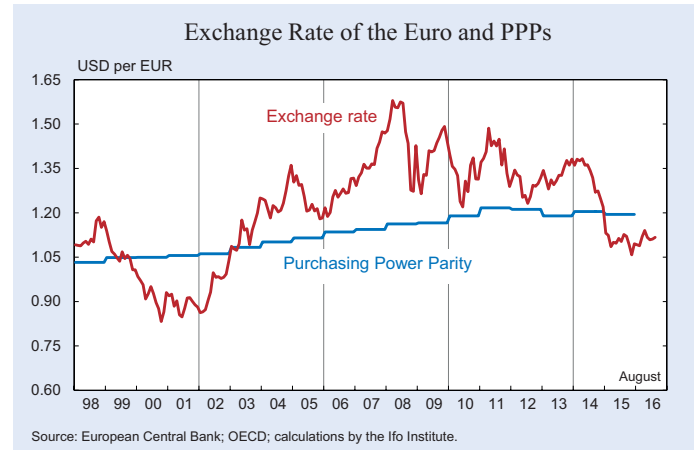


Managers' assessment of *order books* reached -14.4 in August 2016, compared to -10.0 in July 2016. In June 2016 the indicator had amounted to -11.2. *Capacity utilisation* reached 81.5 in the third quarter of 2016, up from 81.1 in the second quarter of 2016.

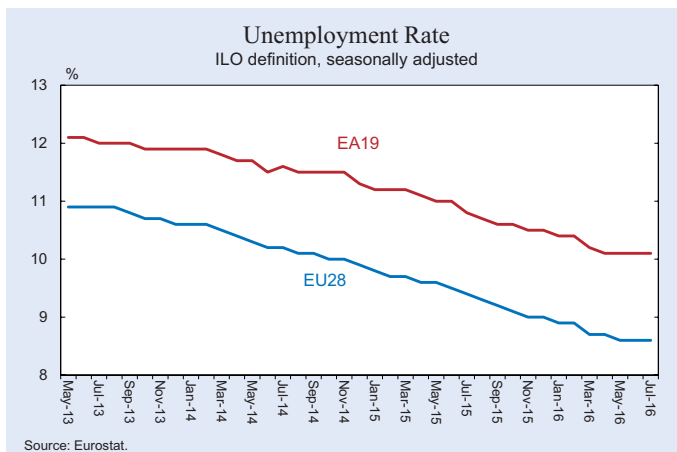
EURO AREA INDICATORS



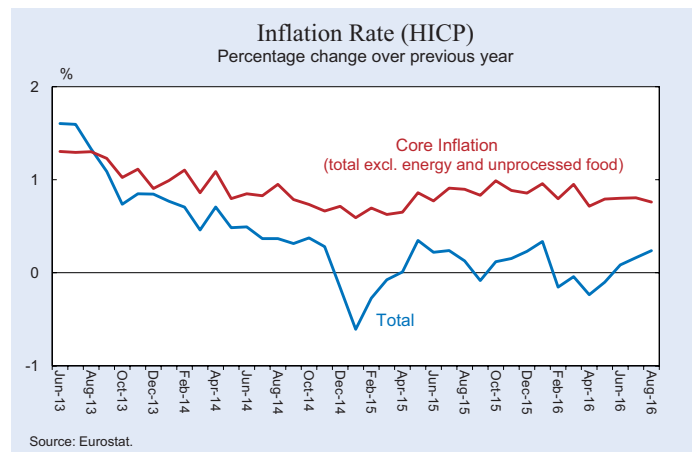
The Ifo Economic Climate Indicator for the euro area (EA19) fell to 111.6 points in the third quarter of 2016 from 112.7 points in the second quarter, but nevertheless remains way above its long-term average. The deterioration in the economic climate was entirely due to less positive assessments of the economic outlook. The current economic situation, by contrast, improved. The economic recovery in the euro area continued this quarter, but lacked impetus.



The exchange rate of the euro against the US dollar averaged approximately 1.11 \$/€ between June 2016 and August 2016. (In May 2016 the rate had amounted to around 1.12 \$/€.)



Euro area (EA19) unemployment (seasonally adjusted) amounted to 10.1% in July 2016, stable compared to that of June 2016. EU28 unemployment rate was 8.6% in July 2016, again stable compared to that of June 2016. In July 2016 the lowest unemployment rate was recorded in Malta (3.9%), the Czech Republic and Germany (both 4.2%), while the rate was highest in Greece (23.5%) and Spain (19.6%).



Euro area annual inflation (HICP) was 0.2% in August 2016, stable compared to that of July 2016. A year earlier the rate had amounted to 0.1%. Year-on-year EA19 core inflation (excluding energy and unprocessed foods) amounted to 0.8% in August 2016, stable compared to that of July 2016.

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